Doing Business in Belarus

October 2012



Ernst & Young
Quality In Everything We Do

National Agency of Investment and Privatization
Republic of Belarus





The Belarusian Chamber of Commerce and Industry is pleased to present this brochure, prepared by specialists at Ernst & Young, the leading assurance and advisory company in Belarus.

The brochure covers the essential information that any company doing business in our country should know – from aspects of the economic system to complex issues with respect to the application of corporate, currency, migration and tax law.

In the last few years, the legal framework for doing business in Belarus has substantially improved. Active efforts are being made to simplify legislation, reduce administrative barriers and make it easier for foreign investors to do business in our country. There is, of course, much that remains to be done. Each year we see new incentives for Belarusian and foreign investors, and legislative changes are becoming more transparent and predictable.

We hope that this brochure will be useful for any businessman contemplating investment in Belarus. For its part, the Belarusian Chamber of Commerce and Industry (as one of the largest and most influential business associations in Belarus) is ready to provide the necessary support for any new project on the hospitable land of Belarus.

Special thanks go to the leadership of Ernst & Young for its effective mutually beneficial cooperation and support.

Sincerely,

Mikhail Myatlikov
Chairman of the Belarusian Chamber of Commerce and Industry



The Ministry of Foreign Affairs of the Republic of Belarus Belarus would like to call your attention to this overview, prepared by Ernst & Young specialists.

The Republic of Belarus is attractive for investments given its geographical and political position and its participation in regional integration processes.

Since gaining independence, Belarus has managed to create a stable, mutually beneficial model of cooperation with most countries. Its foreign policy is strategically based on the multi-vector principle, which means readiness to develop well-balanced relations with partners in various regions of the world. Today our country has diplomatic relations with 170 countries.

With the formation of the Customs Union of Belarus, Kazakhstan and Russia (hereinafter, the "Customs Union") and Belarus's accession to the Common Economic Space (hereinafter, the "CES"), our economy's investment appeal has only grown. Through Belarus, investors can now obtain free access to all three countries without time-consuming customs procedures and additional customs duties. The CES is legally based on international rules, i.e., the rules of the World Trade Organization. These are clear for companies throughout the world and guarantee a predictable environment for business development in the CES market. The free movement of capital and human resources within the CES will also help to make investments more profitable.

Currently, Belarus plays an important role in the transit of Russian energy sources to Europe; it is located at the geographical and political crossroads of trade that connect the EU with Russia and Asia; it is a transport artery for tens of millions of tons of rail and motor vehicle freight.

This overview gives detailed information on the key benefits and mechanisms of state support that an investor can enjoy in Belarus. It also explains the requirements for the registration and activity of business entities in free economic zones and the conclusion of investment agreements.

We hope that this guide will prove useful and give you a more complete picture of our country, its economy, its investment opportunities and its tax and regulatory aspects.

Sincerely,

Aleksander Guryanov
Deputy Minister of Foreign Affairs of the Republic of Belarus



The National Agency of Investment and Privatization, with great honor, introduces Belarus to a worldwide audience through the business overview prepared by Ernst & Young in cooperation with the Agency. I am confident that this overview provides useful information for those who seek to establish business in Belarus. No doubt it will be a success story because our country proposes a huge amount of benefits and advantages for investors.

Through years of economic reforms and improvements, Belarusian authorities have created pro-business environment that stimulates entrepreneurship and foreign investment. The results are evident and reflected in international ratings. The foreign investment inflow did not stop growing even during global economic recession.

Our modern country lies at the crossroads of Eurasia and stands out for the best logistics infrastructure, manpower and intellectual rights protection in the Common Economic Space, with its market of 168 million people. It's the right place for moving up the value chain to achieve higher sustainable returns and seeking out new business opportunities.

The National Agency of Investment and Privatization is the shortest way to Belarus. We propose one-stop shop support and in collaboration with other governmental bodies establish a systematic approach to relationships with investors. Our goal is to encourage foreign companies and businessmen to look at Belarus as their global partner. We build strategic relationships with the most significant investors such as sovereign wealth funds, private equity and venture funds, SMEs and TNCs.

I trust that the overview "Doing Business in Belarus" will give you an understanding of how to create one more additional tool for your business's global expansion.

Welcome to Belarus!

Dmitry Klevzhits
Director of the National Agency of Investment and Privatization



Additional copies of this brochure may be obtained from Ernst & Young's office in Minsk:

Korol Str., 51, 2nd floor, office 30,
Minsk, 220004, Belarus

Foreword



Ernst & Young – 12 years of successful work in Belarus

Ernst & Young's Minsk office was opened in 2000. Today Ernst & Young is the largest international company in Belarus, providing clients with a full range of professional assurance and advisory services.

Ernst & Young opened its second decade in Belarus by more than tripling its staff and greatly expanding its range of services.

In today's challenging environment, Ernst & Young retains an unwavering commitment to finding innovative methods of serving clients. Throughout its 12 years in Belarus, Ernst & Young has helped companies adapt to changing economic conditions and move forward as the country's economy, financial markets, laws and regulatory methods develop, as business conditions change in response to new technologies and as the global economy becomes increasingly integrated.

We hope that this guide to doing business in Belarus will give you a general idea of this market's opportunities, challenges and prospects.

This brochure, prepared by Ernst & Young specialists in Belarus, is designed to provide company executives with an overview of the tax system and accounting methods and of how business is organized and conducted in Belarus. Making decisions on foreign operations is a complicated task requiring thorough knowledge of the business climate in the country along with an understanding that economic conditions and the legal and regulatory framework in Belarus continue to develop in many areas. Company executives should be prepared to hear widely diverging opinions on the situation in Belarus. It is strongly recommended that companies doing business in Belarus or planning to do so obtain up-to-date and detailed information from experienced specialists. This brochure contains information as of 1 October 2012.

Ernst & Young provides assurance, tax and legal services as well as transaction and business advisory services in major cities around the world.

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Geography

The Republic of Belarus (hereinafter, "Belarus") is situated in the heart of Europe, at the crossroads of trade routes from west to east and north to south. It is crossed by the shortest transport communication lines linking the CIS countries with the countries of Western Europe. Belarus borders on Lithuania and Latvia in the north, on Ukraine in the south, on Russia in the east, and on Poland in the west. Its geographic position is of strategic importance for communications between west and east as well as between north and south. From Minsk, it is 500 km to Warsaw, 700 km to Moscow, 1,060 km to Berlin and 1,300 km to Vienna.

Belarus covers a total area of 207,600 sq. km, stretching 560 km (350 miles) from north to south and 650 km (460 miles) from west to east. It is larger than Austria, Ireland, Portugal and Greece. The country's capital, Minsk, is on the same latitude as Hamburg and Dublin. Belarus' highest point, Dzerzhinsky Hill (345 m above sea level), is in the Minsk Region. The country's lowest place is the Neman Valley in the Grodno Region (80–90 m above sea level).

Administratively, the territory is divided into six regions.

Climate

Belarus has a moderate continental climate featuring winters with frequent thaws, and rainy warm summers. The average temperature in January is –6°C, and in July it is +18°C. The average annual precipitation is 550–700 mm.

Population

The territory of the Republic is populated by about 9.5 million people. Belarus is a multinational country with an urban population of 70%.

Language

Belarusian and Russian are the official state languages in Belarus. The most common languages for business are Russian, English and German.

Time zone

Belarus is located in the Central European Time Zone: GMT +2. When it is noon in Belarus, it is 11:00 a.m. in Paris, 10:00 a.m. in London, 5:00 a.m. in New York, 2:00 a.m. in Los Angeles and 1:00 p.m. in Moscow.

The table below shows the flight time between Minsk and some major cities of the world as well as the time difference.

City	Time difference	Flight time
London	-2	3 h
Moscow	+1	1 h 20 min
Paris	-1	3 h
Frankfurt	-1	2 h 25 min

Source: http://www.timeanddate.com/, http://www.airport.by/

Public, republican and other holidays

The following public and main republican holidays are celebrated in Belarus. The holidays marked bold are officially non-working days in Belarus.

Public holidays:

- Constitution Day – 15 March
- Day of Unity of the Peoples of Belarus and Russia – 2 April
- **Victory Day – 9 May**
- Day of the State Coat of Arms and Flag – second Sunday of May
- **Independence Day (Republic Day) – 3 July.**

Republican holidays :

- **New Year – 1 January**
- Day of Defender of the Fatherland and the Armed Forces of the Republic of Belarus – 23 February
- **Women's Day – 8 March**
- **Labor Day – 1 May**
- **October Revolution Day – 7 November**.

Religious holidays:

- **Orthodox Christmas – 7 January**
- Easter – by the Orthodox and Catholic calendars
- **Radunitsa – by the Orthodox calendar**
- Memorial Day – 2 November
- **Catholic Christmas – 25 December.**

If any official public holiday falls on a weekend, usually no extra day of rest is provided. If any of the above holidays falls on a Tuesday or Thursday, the preceding Monday or the following Friday (respectively) is as a rule an official non-working day, while the Saturday nearest to the holiday is a working day.

Foreign organizations in Belarus, such as embassies and consulates, usually enjoy the public holidays of their countries in addition to the Belarusian public holidays.



Belarusian economy

Overview

In the course of the decade preceding 2008, the Belarusian economy grew at an average annual rate of 7.5% due to the country's reserves and favorable external conditions. High investment-to-GDP ratios and productivity gains due to a well-educated and disciplined labor force were the main contributors to growth.

Favorable external conditions also promoted the country's rapid economic development. They include high economic growth rates in Russia and other countries, easy access to the Russian market and low-cost energy imports from Russia. The total assets of the banking sector grew 3-4 times faster than GDP.

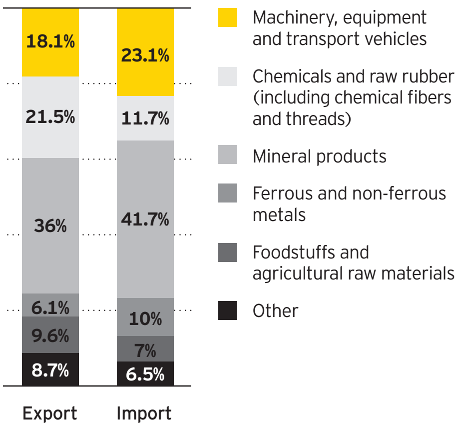
Most of the Belarusian economy remains under state control. Thus, more than a half of Belarusians are employed by state-controlled companies, while others are employed mainly by private Belarusian companies, and less than 2% of Belarusians are employed by foreign companies.

Export/import

Belarus actively imports and exports goods, largely chemicals, machinery and equipment, transport vehicles, ferrous and nonferrous metals, etc.

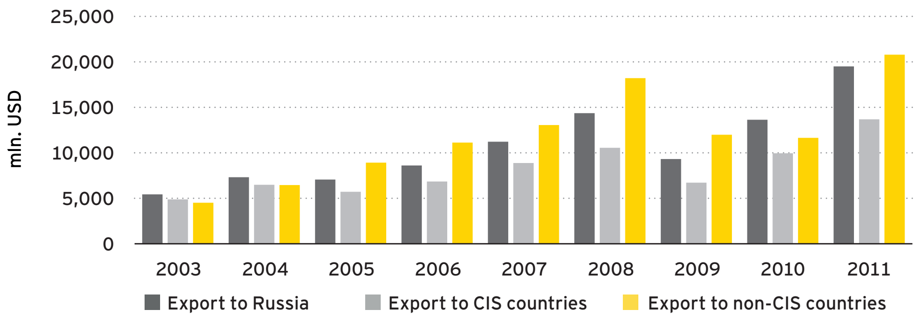
At the end of 2011, Russia accounted for 34% of the exports and 54.5% of the imports of Belarus, while the European Union accounted for 39% and 19%, respectively.

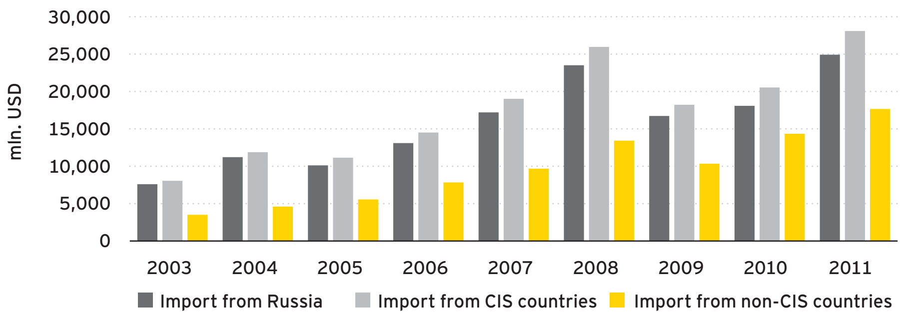
Statistics shows that exports to non-CIS countries have considerably increased recently.



Source: National Statistical Committee of the Republic of Belarus (www.belstat.gov.by)

In its imports and exports, Belarus depends on Russia, which is its major trade partner. Russia accounts for 45% of Belarusian foreign trade turnover, followed by the European Union, the second largest trade partner of Belarus.





Source: National Statistical Committee of the Republic of Belarus (www.belstat.gov.by)

General economic development trends

Like many other countries, Belarus was engulfed in the financial and economic crisis in 2008. The crisis in Belarus developed according to global trends, with a few distinctions. It is generally assumed that the crisis in 2008 did not hit Belarus as hard as it did its neighboring countries. That is largely due to Belarus's structural economic indicators, the low amount of foreign borrowing, the country's aspiration to maintain the prevailing level of production and employment at all costs, an active social policy, the issue of loan bonds to prop up the economy, Russia's financial support and a few other factors.

However, the key economic shortcomings were not fully eliminated, and consequently they (together with other factors) somewhat worsened the economic situation, leading to a new crisis wave (the local "currency" crisis) from March to October 2011.

The economic situation worsened largely due to the large balance of payments deficit, a reduction and restriction of foreign financing sources and a lack of inflow of foreign currency in early 2011. All that sharply reduced the international reserves of the National Bank of the Republic of Belarus (hereinafter, the "NBRB") in the first quarter of 2011, and was followed by a foreign currency deficit in the country.

The main distinguishing features of the new wave of the crisis are:

- Considerable inflation. As of the end of 2011, officially declared inflation was 108.7%. According to the joint opinion of the Big Four companies, the Belarusian economy was hyperinflationary in 2011, as a result of which IAS 29 "Financial Reporting in Hyperinflationary Economies" should be applied when reports are drawn up with regard to the International Financial Reporting Standards (IFRS) by companies whose functional currency is the Belarusian ruble.
- Multiple increases in interest rates in the monetary and credit market. The NBRB gradually increased the basic refinancing rate in Belarusian rubles from 10.5% on 31 December 2010 to 45% on 31 December 2011.
- "Duality" of the exchange rate of the Belarusian ruble against the basic foreign currencies until October 2011, i.e., the official exchange rate of the Belarusian ruble substantially differed from the actual exchange rate. On 24 May 2011, for instance, the exchange rate of the Belarusian ruble against the US dollar was officially reduced by 64% in comparison with the exchange rate on 31 December 2010. The actual market exchange rate differed from the official rate by 40%, indicating that there was a substantial foreign currency deficit in the country. On 21 October 2011, the exchange rate of the Belarusian ruble against the US dollar was officially reduced by another 76% in comparison with the exchange rate on 24 May 2011. Such a duality of the exchange rate in various currency markets no longer exists now.
- Companies have far fewer opportunities to acquire foreign currency to settle foreign trade transactions, including settlements at the actual exchange rate that existed until 21 October 2011.
- An actual noticeable drop-off in business activity, expressed first and foremost in the suspension of several investment projects, or at least in investors' attempt to reconsider the financial and economic terms of projects.

In 2011, the Belarusian leadership took steps to overcome the consequences of the crisis. In June 2011 Belarus received foreign financial support from the anti-crisis fund of the Eurasian Economic Community (hereinafter, the "EAEC"). The first three tranches were granted in 2011–2012; the other three tranches will be granted in 2012–2013 if the agreed-on economic policy measures, worked out by the Council of Ministers of the Republic of Belarus (hereinafter, the "Council of Ministers") and the NBRB and approved by the EAEC, are successfully carried out. Substantial support by Russia in providing loans and its participation in privatizing 50% of the shares of the state-owned open joint-stock company Beltransgaz helped noticeably to increase the international reserves of the NBRB as early as December 2011. According to the officials of the Council of Ministers and the NBRB, the size of the reserves reached a level adequate and stable enough to prevent a foreign currency deficit and to meet the country's requirements for foreign short- and medium-term financing.

New measures are being elaborated and carried out in 2012. Advantageous oil and gas agreements with Russia that came into force on 1 January 2012 have played an important part in this respect. Consequently, the economy has tended to revive, as expressed in the reduction of inflation, the growth of the NBRB's international reserves and a drop in the refinancing rate. Growing interest by foreign companies in projects in Belarus is indirect evidence of its economic revival.

Leading industries during the crisis

The rapid and steady growth of many Belarusian industries in the last decade was interrupted by the global economic crisis in 2008–2009. The fuel and petrochemical sector suffered the most from the price shock. Sales problems resulted in frequent work stoppages at many enterprises, especially in the automotive industry and other machine-building sectors.

The crisis of 2011 also had a considerable impact on certain industries. This is particularly true of industries that substantially depend on imported materials and assembly parts. In this respect, the reduction of the so-called "import dependence" of the economy became one of the main lines of state industrial policy. This is expressed, for instance, in an effort to maximally localize certain production units and to stimulate the production of assembly parts or develop Belarusian analogues to them.

However, the steps that have been taken are not systematic, and an evident change in the economic structure has not been effected so far.

Financial system

Banking activity regulator

The NBRB is the main regulator of banking activity. It issues licenses to all banking institutions in Belarus. Such a license allows a bank to perform banking operations, including attracting the financial resources of individuals and/or legal entities for bank accounts (deposits), opening and maintaining bank accounts for individuals and/or legal entities, settling and/or cash servicing of individuals and/or legal entities, currency exchange operations, issuing bank guarantees, the fiduciary management of financial resources and factoring. There are special requirements for certain types of banking operations.

State regulator of stock exchanges and the securities market

The Securities Department of the Ministry of Finance of the Republic of Belarus (hereinafter, the "Finance Ministry") is engaged in the execution, control, coordination and oversight of state regulation of the securities market, as well as the control and oversight of the issuance, flotation and redemption of securities and the activity of professional participants in the securities market and stock exchanges.

The key functions of the Securities Department of the Finance Ministry are:

- Drafting legal acts on state regulation of the securities market and sending them for consideration to the Finance Ministry
- State registration of issues of shares and bonds
- Maintaining the state registers of shares and bonds
- Participating in licensing professional and stock exchange activities involving securities
- Accrediting securities market specialists
- Controlling and overseeing the issuance, flotation and redemption of securities
- Controlling and overseeing the activity of professional participants in the securities market and stock exchanges
- Issuing certificates for the flotation of shares in/outside Belarus
- Elaborating the standards and norms of corporate conduct for joint-stock companies

Currency control

General principles

Historically, the currency control area has been a source of confusion and uncertainty for foreign investors operating in Belarus. Still, it is important that foreign investors address any potential currency control issues in advance of concluding any significant transactions with Belarusian residents.

In general, residents must make payments to each other in Belarusian rubles. The Belarusian Law on Currency Regulation and Currency Control (hereinafter, the "Law on Currency Control") and other legislative acts contain a list of cases in which residents can settle payments to each other in foreign currency (foreign currency securities, foreign currency payment documents).

Residents can determine a contract's equivalent price in any foreign currency, but they still must make payments in Belarusian rubles only (unless currency legislation directly stipulates the possibility of settlements in foreign currency).

Restrictions on transactions between residents and nonresidents

All transactions in foreign currency or Belarusian rubles between Belarusian residents and nonresidents are regarded as currency transactions. The Law on Currency Control divides them into current transactions and capital transactions.

The list of current currency transactions is closed. All other currency transactions, except for those specifically named in currency law as current ones, are capital currency transactions.

Residents and nonresidents may conduct current currency transactions without any restrictions or permission from the NBRB.

Generally, to carry out capital currency transactions, Belarusian residents obtain permission from the NBRB. In some cases, the currency legislation provides exceptions to this rule.

Nonresidents for the purpose of Belarusian currency legislation

Belarusian nonresidents are:

- Foreign citizens and stateless persons (except for those having Belarusian permanent residency permits)
- Foreign legal entities, their branches and representative offices in Belarus and other countries
- Companies that are not foreign legal entities located outside Belarusian territory, as well as their branches and representative offices in Belarus and other countries
- Diplomatic and other official representations and consular offices of foreign states located in Belarus and in other countries
- International organizations, their branches and representative offices
- Foreign countries, their territorial units

Current currency transactions

Current transactions include the following transactions between residents and nonresidents:

- Settlements under deals assuming exportation and/or importation of goods (excluding money, securities and immovable property), protected information, intellectual property rights, works and services
- Settlements under deals assuming transfer and/or receipt of property in rent (lease)
- Transfer and receipt of dividends and other income on investments
- Non-trade transactions (transfer and receipt of monies for salary payments or pensions or as part of an inheritance, stamp duties, etc.)

Currency transactions that require the permission of the NBRB

The following transactions of Belarusian companies-residents (non-banks), inter alia, require permission from the NBRB:

1) Acquisition of property located outside Belarus that qualifies as immovable property under Belarusian legislation
2) Allocation of funds to nonresident banks or transfer of funds to nonresidents (except for nonresident banks) for trust management
3) Provision of loans

4) Settlements under a resident's obligations as a guarantor towards a nonresident arising from a guarantee or an indemnity agreement

5) Receipt of loans in case of any of the following conditions
   - The interest rate for loans exceeds the level determined by the NBRB (for USD and EUR loans it is currently 14% per annum)
   - The interest rate for loans in the event of late repayment (in the event of interest rate increases due to delayed repayment) and the amount of penalties (fine, default interest) in the aggregate exceeds the level determined by the NBRB (0.01% per day or 3.65% per annum)
   - The loan agreement (along with the interest rate) contains an obligation to carry out other additional charges (except payments for the use of loans in the event of late repayment or payments for paying a penalty)
   - The loan is used to pay the liabilities of the borrower without being received in the borrower's bank account
   - Repayment of the loan is not executed from the borrower's bank account
   - The lender is registered in an offshore zone

6) Settlements under the obligations of a resident towards nonresidents arise on the basis of cession agreements or debt transfer agreements

Also, the law requires Belarusian residents to receive permission from the NBRB to open bank accounts outside of Belarus in banks-nonresidents for the following purposes outlined by law:

- For the support of a representative office (except for Belarusian diplomatic and other official missions) or a branch outside Belarus
- For the support of health facilities outside Belarus
- To finance construction, building maintenance or a geological survey and other field works performed outside Belarus
- For settlements in transactions relating to industrial and economic activity in a foreign country
- To receive a loan from a nonresident bank if the terms of the contract provide for opening a current bank account
- For placement of funds (excluding budget funds) in a depositary account or escrow account with a nonresident bank

Specific requirements for foreign trade agreements

Registration of foreign trade agreements

It is obligatory to register every foreign trade agreement with a bank if the fee for the goods equals or exceeds the equivalent of EUR3,000.

The resident should not register appendices to a foreign trade agreement on transfer of goods or foreign trade agreements on transfer of protected information, intellectual property rights, works and services. Banks do not charge a fee for registration (re-registration) of foreign trade agreements.

Execution of foreign trade agreements

Residents should complete each foreign trade transaction within the following terms:

- For export: within 90 calendar days (120 calendar days under commission agreements) of the date of shipment (transfer of protected information or intellectual property rights), performance of works or rendering of services
- For import: within 60 calendar days of the payment day

These terms can be extended by the NBRB's decision if the requirements of the Council of Ministers and the NBRB are met.

Advance payments under foreign trade agreements

The Law on Currency Control allows an advance payment in foreign currency by a resident under a foreign trade agreement with a nonresident, inter alia, in the following cases:

1) A Belarusian company-importer may carry out advance payments using its foreign currency available in a foreign currency bank account and received after 15 November 2008 as:
   - Revenue
   - Contributions to charter fund
   - Foreign sponsor aid
   - Dividends and other income on investments
   - Interest under loan agreements concluded with nonresidents
   - Interest on foreign currency placement in bank accounts
   - Interest on Belarusian banks' debt obligations
2) A Belarusian company-importer is allowed to make advance payments by using foreign currency received under loan/credit agreements concluded with nonresidents.
3) A Belarusian company-importer may carry out advance payments by the "letter of credit".
4) A Belarusian company-importer may carry out advance payments with the written consent of the NBRB.

There are no restrictions on advance payments in foreign currency made to residents of the Russian Federation and Kazakhstan.

Obligatory sale of foreign currency

Every resident should sell 30% of foreign currency received from foreign trade transactions via auction at the Belarusian Currency and Stock Exchange, except for certain cases established by legislation.

Liability for violating currency law

The penalties for violating currency legislation can be quite significant. The Belarusian Administrative Code envisages different kinds of currency legislation violations that are penalized with varying amounts of fines.

Examples of Belarusian currency legislation violations are given below:

- Illegal acceptance of foreign currency as a means of payment leads to a fine ranging from 10 to 50 basic units (approximately USD120 to 590; one basic unit is approximately USD12 in equivalent).
- Carrying out a capital currency transaction without permission of the NBRB leads to a fine ranging from 10 to 100 basic units (approximately USD120 to 1,180).
- Delay in obligatory sale of foreign currency leads to a fine ranging from 10 to 40 basic units (approximately USD120 to 470) and, for an individual entrepreneur or a legal entity, of up to 1% of the unsold foreign currency for every day of delay, but not more than the amount of the unsold currency.
- Unreasonable understatement of the amount of foreign currency that is subject to obligatory sale leads to a fine ranging from 10 to 40 basic units (approximately from USD120 to 470) and, for an individual entrepreneur or a legal entity, a fine in the amount of the unreasonable understatement.
- The opening of a bank account outside Belarus by an authorized person of a legal entity or by an individual entrepreneur and the performance of transactions using this bank account without the permission of the NBRB leads to a fine ranging from 20 to 50 basic units (approximately USD240 to 590).
- Transfer of revenue from export of goods (works, services) without its receipt in the exporter's bank account and without the required permission leads to a fine in the amount of transferred funds.

- The failure to receive revenue on time or to complete a foreign trade transaction on export of goods (protected information, intellectual property rights, works and services) by the methods envisaged by law; or the failure to receive goods (protected information, intellectual property rights, works and services) or complete a foreign trade transaction on import by the methods envisaged by law leads to a fine of up to 30 basic units (approximately USD355) and, for an individual entrepreneur or a legal entity, of up to 2% of the amount of the foreign trade transaction for each day of delay, but not more than the total amount of the foreign trade transaction.

For certain offences additional criminal liability can be imposed on the executives of the violating legal entity. Non-compliance of banks with currency control regulations may result in the revocation of their licenses.

In this respect, it is strongly recommended that this area be given due focus in advance of the conclusion of any material transactions.



Investment legislation and main incentives



Investment legislation

The Belarusian Investment Code and Presidential Decree No. 10 "*On additional conditions for investment activity in Belarus*" of 6 August 2009 sets basic regulations for investment activity in Belarus.

In addition, a draft of the Law on Investments has been developed and is expected to be adopted in 2012. After its adoption, sections I, II, IV–V of the Investment Code may cease to be in force. Section III "*Peculiarities of carrying out investment activities on the basis of concessions*" should apply until adoption of the Law on Concessions.

The legislation defines investment activity as investment in the manufacture of goods (performance of works, rendering of services) or any other use of investments for the purpose of receiving profit (income) or achieving another significant result.

The forms of investment activity in Belarus are:

- Establishment of a legal entity
- Acquisition of property or property rights, i. e.:
  - Share in charter fund of a legal entity, including increase of charter fund
  - Real estate
  - Securities
  - Intellectual property rights
  - Concessions
  - Equipment
  - Other capital assets

The sources of investments can be:

- Investors' own funds, including depreciation allowance reserves, net profit and profit from sale of shares
- Borrowed funds, including loans from banks and non-bank credit and financial organizations, loans from founders (shareholders) and other legal entities and individuals, funded loans

The peculiarities of investment activity under different conditions are outlined below.

Law on Investments

As mentioned above, the Law on Investments is expected to be adopted in 2012 and will enter into force six months after its official publication.

Unlike the Investment Code, the Law on Investments:

1) Defines investments more thoroughly
2) Establishes the basic principles for carrying out investment activities in Belarus
3) Enlarges the list of methods (forms) of investment activities
4) Establishes the conditions for compensation for excepted investments or other property developed in the course of performing investments activities
5) Determines the authorized agencies empowered to resolve disputes (disagreements) between a foreign investor and Belarus
6) Excludes the concept of a commercial company with foreign investments

Investment agreement with Belarus

An investment agreement is a special type of contract concluded to provide additional government support to investment projects important to the Belarusian economy. Investment agreements are concluded between a foreign or national investor (investors) and Belarus as represented by the Council of Ministers or a republican government body.

Two levels of investment agreements

The conclusion of an investment agreement may be based on the decision of any of the following state authorities:

- Republican government body or other state company subordinated to the Council of Ministers, Administrative Affairs Office of the President of the Republic of Belarus (hereinafter, "President"), regional executive committee
- The Council of Ministers with the permission of the President.

Incentives under an investment agreement

Irrespective of the contracting party representing Belarus, all types of investment agreements assume a number of incentives exclusively provided under the agreement. The most important of them are:

- The site's construction under the investment project along with the elaboration, expert examination and approval of required project documentation for each stage of construction together with a design for succeeding construction stages
- Rental of the land plot requisite for construction is provided without auction
- The right to remove vegetation without paying compensation for the removed vegetation during the site's construction under the investment project
- The rental rate is defined as at the date of the agreement's conclusion and cannot be increased during the entire period of the investment project's realization
- Full credit for VAT paid for goods, works, services and property rights used for designing, construction and equipping of sites under the investment project
- Exemption from paying custom duties and VAT on import of technical equipment (assembly and spare parts) under the execution of the investment project
- Exemption from paying the state duty for the right to conclude the rental contract
- Exemption from paying state duty for obtaining permission for the engagement of foreign labor in Belarus and special work permissions for foreign individuals attracted for the realization of the investment project; in addition, these foreign individuals are exempted from paying the state duty for a terminal residency permit
- Exemption from compensating for agricultural and forestry-based losses derived from acquiring a land plot for the execution of the investment project
- Exemption from paying land tax or rent for land plots provided for project construction under the investment agreement during the design and construction period and until 31 December of the year following the year when construction was completed
- Exemption from paying contributions to innovation funds during the terms of the investment agreement

Investors can benefit from any other incentives stipulated by the internal Belarusian legislation and not exclusively provided for under the investment agreement.

Incentives granted by the President

Investment agreements concluded under the Council of Ministers' decision with Presidential approval may provide for more incentives and benefits even though they are not envisaged in the law directly. These incentives are defined individually in each separate case.

Free economic zones

Free economic zones (hereinafter, "FEZ") are territories with a special regime for entrepreneurial activity and with special incentives for business development, e.g., tax and customs benefits.

Belarus has six FEZs: FEZ Brest, FEZ Minsk, FEZ Gomel-Raton, FEZ Vitebsk, FEZ Mogilev and FEZ Grodnoinvest.

FEZ residents

FEZ benefits are available for FEZ residents registered on FEZ territory.

The candidate should submit a set of documents to the FEZ Administration and pay the state duty. One of the requirements for registration is to prepare a business plan for an investment project, which should stipulate investment of at least EUR1 million.

The preferential tax regime applies to FEZ residents in the following cases:

- Export of goods (work, services) produced by residents on FEZ territory
- Sale of goods (work, services), produced by residents on FEZ territory, on the territory of Belarus, provided that the goods are import substituting under the list determined by the Council of Ministers and approved by the President; in this case the preferential tax regime is effective until 1 January 2017
- Sale of goods (work, services) produced by residents on FEZ territory to other FEZ residents

Benefits for FEZ residents

The following key benefits exist:

- Exemption from corporate profit tax (hereinafter, "CPT") for five years from the date of first profit declaration. Profit from uncovered activity is subject to profit tax at the general rate of 18%. Subsequently, tax is paid at a rate that is cut by half, but that is no more than 12%. Since the CPT rate was reduced from 24% to 18% in 2012, FEZ residents are to calculate CPT at the rate of 9%.
- Exemption from real estate tax on buildings and construction (including over-normative construction in progress) situated on the territory of the relevant FEZ, irrespective of the way in which they are used. The benefit for FEZ residents registered prior to 1 April 2008 will remain unchanged through 31 March 2015, while for FEZ residents registered after1 April 2008, it will remain unchanged for seven years following the date of registration.
- Exemption from land tax on land provided for construction during engineering and construction, but for not for more than five years from the registration date (for FEZ residents registered after 1 January 2012). For FEZ residents registered prior to 1 January 2012 the benefit applies till 1 January 2017, but for not more than five years from the registration date.
- VAT on sales in Belarus by FEZ residents of import-substituting domestic goods (in accordance with the list of import-substituting goods) produced in a FEZ is paid at the rate of 10% (instead of the 20% general VAT rate). This benefit can be applied until 1 January 2017.

FEZ residents pay VAT, excise duties, ecological tax, natural resource extraction tax, land tax (or rental payment), state duty, patent duties, offshore duty, license and registration fees, stamp duty, customs duties and fees, local taxes and duties and contributions to the Fund for the Social Protection of People (hereinafter, "social security contributions") according to the general procedure. In addition, they act as tax agents.

High Tech Park

The High Tech Park (hereinafter, "HTP") was established in Minsk in 2005 to promote the IT industry in Belarus. The HTP is located east of Minsk and has a special legal regime in effect until 2020.

HTP resident status

A legal entity and an individual entrepreneur receive HTP resident status if their activities include:

1) Analysis, projection and software provision of information systems
2) Data processing using either the consumer's, entity's or entrepreneur's own software
3) Fundamental and applied research, experimental R&D in the field of natural and technical sciences (R&D involving HTP activity) and implementation of R&D results
4) Other activity approved by the Council of Ministers after it is agreed on by the President

Benefits for HTP residents

HTP residents pay 1% of their revenue to the HTP Administration and enjoy the following benefits:

- Exemption from CPT
- Exemption from VAT on the sale of goods, work or services or from the transfer of property rights in Belarus (a few exceptions include rental pay received from leased out immovable property and sale of goods placed under customs procedures of export, re-export or exported to Customs Union's countries without an obligation to return such goods to Belarus)
- Exemption from land tax (but for not more than three years) within the HTP during the construction by HTP residents of buildings and structures on it for their own activity
- Exemption from real estate tax paid for buildings and construction (including over-normative construction in progress) which are in the HTP, except for buildings and construction (or parts of them) that are leased out
- Personal income tax rate of 9% is applied to the income of an HTP resident's employees (except for administrative staff, e.g., security guards, cleaners, etc., who pay income tax at the general rate of 12%) as well as of individual entrepreneurs who are HTP residents
- The social security contribution is calculated on the basis of an amount which is not more than the average salary in Belarus for the preceding month (except for administrative staff, e.g., security guards, cleaners, etc., from whose payroll social security contributions are paid on general terms)
- Payments by HTP residents to foreign companies in the form of dividends, royalty and interest are subject to withholding tax at the rate of 5% (if a lower rate is not set in the relevant double tax treaty)
- The lease rates for state-owned immovable property are half the general rates
- Dividend payments are not subject to an offshore duty
- The requirement to sell foreign currency revenue received from the above-mentioned activities does not apply to HTP residents
- An exemption from customs duties and VAT on importation of goods for the above-mentioned types of activity (a list of these goods is approved by the President). HTP resident cannot transfer the imported goods to third parties or use them in a way other than for the above-mentioned types of activity for two years from their release date. Otherwise, customs payments should be made and other requirements set forth in customs legislation should be met

China-Belarus Industrial Park

The China-Belarus Industrial Park (hereinafter, the "CBIP") was created with the support of the People's Republic of China in accordance with the Agreement between the Council of Ministers and the Government of the People's Republic of China. The CBIP is located in the southwest part of Smolevichi region (55 kilometers from Minsk) and occupies a land allotment of 8084 hectares. The CBIP is a territory with a special regime for entrepreneurial activity that is in effect until 2062.

CBIP resident status

A Belarusian company can receive CBIP resident status if it meets the following conditions:

- It is actually located on CBIP territory
- It is registered with the CBIP Administration as a resident of the CBIP
- It is contemplating developing an investment project in the spheres of electronic engineering, fine chemistry, biotechnology, machine industry, and innovative technologies
- The contemplated amount of investments should be not less than USD5 million

Benefits for CBIP residents

The following main tax benefits exist:

- Exemption for 10 years from the date of state registration from CPT for realization of goods (work, services) of a company's own production and produced on the territory of the CBIP (that it is a company's "own production" should be confirmed by a certificate from the Belarusian Chamber of Commerce and Industry). After this 10-year period expires, tax is paid for another 10 years at half the general rate (9%). Profit from other activities is subject to CPT at the general rate (which is currently 18%).
- Exemption for 10 years from the date of state registration from real estate tax on buildings and construction (including over-normative construction in progress) situated on CBIP territory. After the 10-year period expires, tax is paid for another 10 years at half the general rate.
- Exemption for 10 years from the date of state registration from land tax on land located on CBIP territory. After the 10-year period expires, tax is paid for another 10 years at half the general rate.
- A personal income tax rate of 9% applies to the income of a CBIP resident's employees (this provision is effective until 1 January 2027).
- Payments by CBIP residents to foreign companies in the form of royalty are subject to withholding tax at the rate of 5% (this provision is effective until 1 January 2027).
- The social security contribution is calculated on the basis of an amount that is not more than the average salary in Belarus for the preceding month.

After the expiration of the respective periods of benefits all the taxes are paid by CBIP residents at the general rates.

Other benefits:

- Exemption from paying state duty for obtaining permission for the engagement of foreign labor in Belarus and special work permissions for foreign individuals
- Exemption from paying compensation for agricultural and forestry-based losses derived from acquiring a land plot for the execution of the investment project
- Exemption from obligatory sale of foreign currency gained from activity in the CBIP (this provision is effective until 1 January 2027)
- Exemption from paying contributions to innovation funds of the Belarusian Ministry of Construction
- Exemption from import duties and import VAT for goods (technological equipment, spare parts and materials) imported for the realization of investment projects and construction of objects on CBIP territory. These goods should be used only for the indicated purposes; otherwise import duties and VAT must be paid in full

Business activities in medium and small towns and rural areas

There are a number of benefits for the companies and individual entrepreneurs doing business in medium-sized/small towns and rural areas except for those that are directly listed by legislation (among areas where the regime is not applicable are regional cities – Brest, Vitebsk, Gomel, Grodno, Minsk, Mogilev – and certain other major cities).

Beginning from 1 July 2012 companies and individual entrepreneurs doing business in medium-sized/small towns and rural areas and applied for the implementation of this regime, are exempt from:

- Corporate profit tax and personal income tax respectively during seven years after registration of business
- Real estate tax on the objects located in rural areas
- State duties for obtaining special permissions (licenses), introduction of changes into special permissions (licenses) and their prolongation
- Obligatory sale of foreign currency received under transactions with Belarusian nonresidents
- Customs duties and import VAT for equipment (the list of such equipment is closed) in case of contribution of such equipment into the charter fund provided that legal entity will use such equipment for five years in its entrepreneurial activity
- Other

Exemption period is seven years beginning from the date of the state registration of business in medium-sized/small towns and rural areas.

Companies and individual entrepreneurs doing business in medium-sized/small towns and rural areas may apply for tax incentives for corporate profit tax provided that:

- They keep separate accounting for revenue/expenses received/incurred from operations in medium-sized/small towns and rural areas
- They obtain a certificate of own production from the Belarusian Chamber of Commerce and present it to the tax authorities

The following incentives are introduced for subdivisions of companies created in medium-sized and small towns and rural areas (for subdivisions created not later than 31 December 2018):

- Exemption from corporate profit tax
- Exemption from the real estate tax usually paid for buildings (constructions) and car parking spaces, if this immovable property is recorded on a balance sheet of the subdivision
- Contributions to innovation funds

Companies and individual entrepreneurs doing business in medium-sized/small towns or rural areas and rendering services on cargo carriage and transportation of passengers and luggage are able to enjoy benefits only if:

- The departure (loading) point and/or destination (discharging) point is located in a medium-sized or small town or a rural area, and
- The transport used for such services is registered with authorized agencies in a medium-sized or small town or a rural area.



Companies



Corporate forms

A foreign company can undertake business activities in Belarus either through:

- A separate Belarusian legal entity, or
- A representative office of a foreign company

The most commonly used types of Belarusian legal entities are limited liability companies, closed joint-stock companies and private unitary enterprises. Other corporate forms (e.g., full or limited partnerships) are theoretically available to foreign investors, but they are rarely used.

Specific features of companies with foreign investments

A commercial company with foreign investments means a legal entity with a charter fund that partially or fully consists of foreign investments that are equivalent to not less than USD20,000 and the main aim of which is to make profit and/or distribute it between the participants. If the Law on Investments is adopted, the legal regime for the establishment and operating of companies with foreign investments could be ambiguous.

Types of commercial companies with foreign investments:

- Joint commercial company
- Foreign commercial company

The charter fund of a joint commercial company consists of the proportion of the foreign investor and the proportion of physical and (or) legal entities of Belarus. The charter fund of a foreign commercial company is fully represented by foreign investments.

A commercial company with foreign investments can be created in several ways:

- By incorporating it
- As a result of the acquisition of shares (participatory interest) in an already existing Belarusian legal entity
- Via acquisition of a Belarusian company as a "property complex" by a foreign investor

Companies with foreign investments are granted the right to form a charter fund for two years following the moment of state registration: 50% during the first year and 50% during the second year (except for an open joint-stock company).

Ordinary companies (including open joint-stock companies with foreign investments) must form their charter fund before their state registration. Current Belarusian legislation contains no requirements for the size of a charter fund, except for closed and open joint-stock companies.

Companies with foreign investments should be audited every year, and they cannot be liquidated simply by the decision of the registration state body; the terms and conditions of a collective agreement (contract) and employment contracts (agreements) may differ from those established by Belarusian labor legislation, but should not worsen the employees' position as compared with the Belarusian legislation.

Table. Comparison of limited liability company, private unitary enterprise and closed joint-stock company

Limited liability company	Closed joint-stock company	Private unitary enterprise
Standard registration procedures	Standard registration procedures plus registration of shares with the Securities Department of the Ministry of Finance	Standard registration procedures
Profit can be allocated both proportionately and disproportionately to participatory interest, if that is directly allowed by the charter	Profit can be allocated only in proportion to shares (except for privileged shares)	Profit is distributed by the owner in the owner's favor
Transfer of participatory interest to a third party can be restricted/prohibited by the charter	Transfer of shares of closed joint-stock company to third parties is only permitted with the other shareholders' consent	As the enterprise is 100% owned by one legal entity, transfer is carried out through disposal of "property complex"
The sale price of participatory interest or the method for its estimation may be specified by the charter in advance	The sale price of shares may not be specified by the charter in advance	Transfer of the enterprise is carried out through disposal of "property complex" and the sale price may not be specified in advance
The registration procedure is not very complicated and usually takes about a week	The registration procedure is quite complicated because of the requirement to issue shares and register this emission	The registration procedure is the same as for a limited liability company

Limited liability company

The limited liability company ("LLC" or "OOO" in Russian) seems to be the most popular corporate form in Belarus. In practice the majority of foreign companies starting their activities in Belarus prefer to establish an LLC.

The charter fund of an LLC consists of the nominal values of its participants' participatory interests. The minimum charter fund of an LLC is currently not set (except for LLCs with foreign investments – see above). Payments for participatory interests may be in the form of cash and/or in-kind payment with shares of other companies, assets, equipment, etc. Participatory interests of LLCs differ from shares of joint-stock companies, because participatory interests are not securities and should not be registered with a governmental body.

An LLC's charter may contain certain restrictions related to the transfer of a participant's rights, such as a prohibition against sales of participatory interests to third parties and the withdrawal of a participant from the LLC without the consent of other participants. If the charter provides for the right of withdrawal, the withdrawing participant should be paid the actual value of its participatory interest in the LLC.

The number of participants in an LLC can be up to 50. An LLC shall have a minimum of two founders.

The governing bodies of an LLC are the general meeting of participants and the board of directors (optional). An individual executive body (director) runs its day-to-day business; there can also be a collective executive body (managing board) running it.

The members of an LLC are not responsible for its obligations and bear the risk of loss only within the limits of their participatory interests.

Private unitary enterprise

A private unitary enterprise ("PUE" or "ЧУП" in Russian) is also a very popular corporate form in Belarus. The main difference from an LLC is that a PUE's founder remains the direct owner of its property.

The property of a PUE is indivisible and may not be divided into contributions (participatory interest, shares). Both an individual (jointly owned by spouses) and a legal entity can privately own the assets that belong to a PUE by right of economic management. Common ownership of a PUE's assets is prohibited.

The PUE has the right to dispose of all the property that belongs to it by right of economic management except for real estate (if other restrictions are not set by the founder in the charter). Any disposal of real estate (including sale, lease, recognizance, etc.) can be carried out only by the founder's decision.

The minimum charter fund of a PUE is currently not set (except for PUEs with foreign investments - see above). Payments into the charter fund may be both in cash and in kind, when it is paid with shares of other companies, assets, equipment, etc.

The maximum number of participants in a PUE is one.

The governing body of a PUE is the director, who shall be appointed by the owner or by a body authorized by the owner and accountable to it.

A PUE is liable for its obligations, with all of the property belonging to it by right of economic management. It doesn't bear liability for the obligations of the owner of its property.

Joint-stock company

Joint-stock companies ("JSC") might look a bit more complicated from the administrative burden standpoint. JSCs generally fall into two categories: closed and open. The difference between an open and a closed JSC is that in an open JSC shares may be freely sold to third parties, while in a closed JSC share transfers are subject to the pre-emptive rights of other shareholders.

The minimum charter fund requirement for incorporation is currently:

- 100 basic units (approximately 1,175 USD) for a closed JSC
- 400 basic units (approximately 4,700 USD) for an open JSC

The maximum number of shareholders cannot exceed 50 for a closed JSC but is unlimited for an open JSC. The JSC shall have a minimum of two founders.

Joint-stock companies can distribute two types of shares: ordinary (voting) and preference shares. The owner of a preference share receives fixed dividends and has the right to equity when a company is being liquidated, but does not get the right to vote in managing the company. The nominal value of such preference shares that are distributed must not exceed 25% of the company's charter fund.

An open JSC must comply with a number of information disclosure requirements. For this reason a closed JSC is generally

preferred and may be used for setting up a joint venture with a Belarusian partner. In most cases, if a company is an open JSC, it means that previously it was a state unitary enterprise and was transformed into an open JSC in the course of privatization (the state continues to be the stakeholder).

Representative offices

Foreign companies may also operate in Belarus without creating a legal entity by establishing a representative office. A representative office is generally understood to be a subdivision of a foreign legal entity that represents the company's interests in Belarus, and not a separate legal entity.

Its main purpose is generally to promote commercial relations between the foreign legal entity and Belarusian enterprises and to gather information about the Belarusian market. Representative offices are officially allowed to undertake commercial activity. In practice, many of them do engage in commercial activity.

The term of the representative office's operation is determined by the company when it applies to open a representative office. The term can be renewed.

Registration of companies in Belarus

Companies must be registered with the state registration authority, which takes care of further registrations with the tax authorities, the Fund for the Social Protection of People, the statistics bodies, the Belarus republican unitary insurance enterprise Belgosstrakh, etc.

A representative office should be accredited with the Belarusian Ministry of Foreign Affairs. After that it should separately apply for registration with the tax authorities, the Social Security Fund, the statistics bodies and the Belarus republican unitary insurance enterprise Belgosstrakh.

On the whole, setting up a representative office is much more burdensome, i.e.:

	Legal entity	Representative office of a foreign company
Time of registration (setting up)	About 1.5–2 weeks	About 1–1.5 months
State duty amount	5 basic units (approximately 60 USD)	65 basic units (approximately 765 USD) for each year of existence

If any documents submitted in connection with registration are unsatisfactory, the applicant may need to re-file them. Also, certain registrations must take place in a prescribed sequence; thus, a delay at one stage of the process can delay subsequent stages.

A newly created company (a representative office) should take additional steps to be fully operational, e.g., open bank accounts, manufacture a corporate seal and register the shares issuance (for JSCs only) with the securities authorities.

Licensing

A special permit (license) is required to carry on certain business activities. Currently, there are 37 such activities (including 230 components). The most important are: banking transactions, gambling business, production and wholesale of alcoholic products and tobacco goods, retail of alcoholic products and tobacco goods, distributive trade in oil and oil products, medical activity, transportation services and publishing.

The licensing authorities issue licenses within 15 working days from the date of submission of all required documents.

Mergers and acquisitions

Antimonopoly control

Under the Competition Law, certain transactions (including mergers and acquisitions, establishment of new companies, purchase and sale of shares and/or assets) are subject to antimonopoly control.
An antimonopoly body's approval should be obtained prior to registration and the purchase of shares of the company-monopolist on the Belarusian market.

Restrictions applicable to strategic companies

Foreign investors are prohibited from investing in the following fields:

- Defense and security of Belarus
- Production and sale of drugs, strong and toxic agents

Foreign investment in legal entities that are monopolies on the Belarusian market is not allowed without the approval of the Belarusian Ministry of Economy.

Shareholders' agreements

The legislation and judicial practice of Belarus do not provide for shareholders' agreements. It is, however, expected that shareholders' agreements will be introduced soon.

Taxes at a glance

Main tax rates

Taxes (a)	Rates
CPT	18%
Capital gains tax	18%/9% (b)
Branch remittance tax	0%
Income tax rates for foreign companies not engaged in activity in Belarus through a permanent establishment:	
Payment for transportation and freight (including demurrage and other payments upon transportation) in the event of international traffic, and for the provision of transport forwarding services	6%
Interest income derived from any debt obligations, including income concerning loans (deposits, credit lines, the right to use temporarily available resources in accounts in Belarusian banks) and securities	10%
Dividends	12%
Royalty, income from licenses and other income according to the list set forth in legislation	15%
Value added tax	20%
Real estate tax	1%/2% (c)
Social security contributions:	35%
Compulsory social insurance for retirement, disability and loss of breadwinner (pension insurance)	29% (d)
Compulsory insurance premiums for disability, maternity, etc.	6%

(a) The list of taxes is not exhaustive. Additional information is given further on.

(b) A 9% rate applies to profit from the sale of shares (participatory interest in charter capital).

(c) The tax rate is 2% for objects of over-normative construction in progress. The local authorities may set an increasing or decreasing 2x coefficient.

(d) The amount includes 1% payable by an employee. In this case, tax is withheld and paid by the employer.

Tax system

The President, the Belarusian National Assembly and the Finance Ministry are responsible for determining the basic principles of taxation and developing the tax policy in Belarus. The Belarusian Ministry of Taxes and Duties (hereinafter, the "Taxation Ministry") and its territorial (regional, district) inspectorates practice operative control over taxation.

Today, Belarus has a two-tier tax system:

- Republican taxes and duties. The Tax Code of the Republic of Belarus (General and Special Parts) (hereinafter, the "Tax Code") and the Presidential Decrees establish them. These taxes and duties must be paid on the whole territory of Belarus.
- Local taxes and duties. Regulatory legal acts of the local Councils of Deputies establish them on the basis of the Tax Code. These taxes are payable on the relevant territories only.

Tax audits

The Tax Code envisages several types of tax audits, including in-house (desk) and on-site (field) audits. An audit should not take more than 30 workdays. A planned audit can be prolonged by not more than 15 workdays. There are no restrictions on repeating an audit of already audited periods. However, the Belarusian tax bodies do not as a rule conduct tax audits for periods exceeding five years or repeat audits of tax audit periods. Belarus has a ban on audits for two years from the registration date of a new company.

The periodicity of audits depends on the risk group to which a taxpayer belongs. The tax authorities plan audits depending on the risk profile of a company:

- A high risk group – not more than once a calendar year. If there are no identified tax law violations, they plan the next audit in two years at the earliest.
- An average risk group – not earlier than once in three years. If there are no identified tax law violations, they plan the next audit in five years at the earliest.
- A low risk group – when the need arises, but not more than once in five years.

Planned audits are semiannually placed on the website of the Belarusian State Control Committee not later than 15 December and 15 June (www.kgk.gov.by).

Corporate profit tax

Taxpayers

CPT payers are (i) Belarusian companies and (ii) foreign companies engaged in activity in the Republic of Belarus through a permanent establishment.

Belarusian companies

Belarusian companies pay tax on profit received in Belarus and abroad.

Taxes for a group or in the event of consolidation cannot be reduced, because each company of the group is a separate taxpayer. Branches with separate bank accounts and separate balance sheets submit separate CPT returns and pay CPT separately, i.e., a branch's losses will not affect the tax base of another branch or the parent company.

Permanent establishment of foreign companies

Foreign companies pay CPT on profit received through a permanent establishment in Belarus by selling goods (work, services) and property rights as well as on non-sale income reduced by non-sale expenses.

A foreign company's permanent establishment in Belarus is:

- A structural subdivision (establishment) or other place of supply of goods (work, services) or of engagement in other activity in Belarus through which a foreign company carries on entrepreneurial or other activity to make profit
- A company or individual engaged in activity on behalf of a foreign company and/or in its interests, and/or having and using the foreign company's authority to enter into contracts or agree on their material terms (dependent agent)

A construction site and an assembly unit are also permanent establishments if they have existed in Belarus for over 180 days in any 12-month period.

A place used only for one or several of the following purposes is not a foreign company's permanent establishment:

- Storage, exhibition or supply of goods of own production ("supply" means delivery and shipment of goods without selling them in Belarus through a permanent establishment)

- Procurement of goods for a foreign company
- Gathering or distributing of information for a foreign company
- Involvement in other types of activity if the activity is, on the whole, preparatory or auxiliary.

Double tax treaties signed by Belarus with other states may have other rules for determining a permanent establishment

Object of taxation. Tax base

CPT applies to (i) gross profit and (ii) dividends accrued by Belarusian companies.

There are two methods to recognize sales revenue:

- Upon receipt of payment for the supplied goods (work, services and property rights) (cash method)
- Upon the supply of goods (work, services and property rights) (accrual method)

Banks use the accrual method only. It is expected that starting in 2013, all taxpayers will apply the accrual method.

CPT rate

The CPT rate is 18%. Profit from the sale of shares (participatory interest in the charter capital) of a Belarusian company is taxed at the rate of 9%. A CPT rate of 12% applies to dividends paid by Belarusian companies. Reduced tax rates are also applied in some other case.

Tax benefits

CPT exemptions:

- Profit received from a real estate sale in the amount of the cost for creating an engineering transport infrastructure leading to the real estate that was then transferred free of charge to maintenance companies
- Profit from the sale of certain innovative goods or high tech goods of own production
- Income from operations with bonds issued from 1 April 2008 to 1 January 2013 by legal entities deemed tax residents of Belarus
- Profit (not more than 10% of gross profit) transferred to certain budget-funded Belarusian companies or used to pay the bills for goods (work, services) acquired and transferred to such companies
- Profit of companies that employ disabled persons if such persons are at least 50% of the staff for a tax period
- Profit from the sale of goods (work, services) at roadside service sites – for five years from the date of start of operations
- Profit from child food production
- Profit of insurance companies from the investment of insurance resources under agreements concerning voluntary insurance relating to life insurance, which is used to increase the accumulation in insured persons' deposit accounts, etc.

Tax deductible expenses

The list of tax deductible expenses is not exhaustive. All expenses (except for expenses that are not deductible or deductible within certain limits) should be fully deducted if they relate to the production/sale of goods (work, services, property rights) or if they are non-sale expenses.

In practice, form prevails over substance in tax authorities' audits and, therefore, certain expenses may be non-deductible if the taxpayer cannot confirm them by an agreement, an acceptance certificate, an invoice, etc.

Interest expenses – thin capitalization rules

Thin capitalization rules restrict tax deduction of a certain portion of interest on loans for CPT purposes. The rules will come into force as of 2013.

They apply when the debt to equity ratio is more than 3:1.

The following are cases in which a controlled debt arises:

1) A foreign company that granted a loan owns, directly or indirectly, over 20% in a Belarusian company's charter capital
2) A Belarusian company that grants a loan is an interrelated entity of a foreign company that directly or indirectly owns over 20% in a Belarusian company's charter capital

Tax deductible interest is calculated by the following formula:

$$\text{Maximum amount of deductible interest} = \text{Interest accrued} \Big/ \left(\frac{\text{Controlled debt}}{\text{Borrower's equity capital} \times \text{Lender's share in the borrower's capital} \times 3} \right)$$

Thin capitalization rules do not apply to banks, insurance companies, lessors or landlords (if the received rental payment (lease payments) exceed 50% of the total revenue from the sale of goods (work, services) and property rights as well as income from rent-out and lease-out operations).

Interest expenses — other specific features

Interest expenses on overdue loans do not reduce the CPT base.

Interest expenses on loans for the acquisition of fixed assets are capitalized before the assets are put into operation, while they are capitalized or accounted as non-sale expenses after the assets are put into operation.

Depreciation/amortization

Depreciable/amortizable assets are tangible/intangible assets either used or not used in entrepreneurial activity. Depreciation/amortization charges are deductible only if the taxpayer uses the tangible/intangible assets in entrepreneurial activity.

Taxpayers can use the following depreciation/amortization methods: the linear method, the reducing balance method (nonlinear), the direct sum-of-the-years'-digits method (nonlinear), the inverse (reverse) sum-of-the-years'-digits method (nonlinear) and the units of production (output based) method.

At the acquisition of tangible and intangible assets, a taxpayer can immediately deduct a part of their initial value for CPT purposes as follows:

- Not more than 10%, for buildings and structures
- Not more than 20%, for machinery and equipment, transport vehicles and intangible assets

Depreciation/amortization is calculated on the basis of assets' initial value less the part of the immediately deducted initial value.

Other expenses

Current legislation sets limits for the deduction of business trip expenses, fuel and energy expenses, payroll expenses, insurance expenses and some other expenses.

Loss carry forward

A loss is an excess of the total amount of the costs of production and sale of goods (work, services), property rights and certain non-sale expences (leasing out property, negative FOREX and sum differences) over the total revenue from the sale of goods (work, services, property rights) and certain non-sale income (leasing out property, positive FOREX and sum differences) less revenue taxes.

The losses can be carried forward within the next 10 years, starting with those incurred in 2011 (the rules will be in force as of 2012).

Losses are carried forward in groups of operations against identical types of income:

- 1st group – operations with financial derivatives and securities
- 2nd group – alienation of fixed assets, construction-in progress sites and uninstalled equipment

Further, the remaining losses are carried forward irrespective of the operations and activity from which they were incurred.

To apply loss carry forward rules, a company should maintain separate accounting, and should also keep documents confirming the amount of losses.

Dividends

Dividends received by Belarusian companies from residents and nonresidents are subject to CPT at the rate of 12%. Dividends distributed by Belarusian companies are taxed at source. CPT on dividends is withheld and transferred to the budget by the companies that pay the dividends.

When dividends are paid by foreign companies, income tax may be withheld in a foreign state. Actually, the amount of tax withheld in a foreign state may be offset when paying CPT in Belarus (see the section "*Offset of taxes paid in a foreign state*").

Profit/loss from capital gain

Profit from the sale of tangible and intangible assets is defined on the basis of sales revenue less revenue taxes, assets' net book value (for depreciable/amortizable assets) or acquisition cost (for non-depreciable assets, e.g., construction-in-progress sites and land lots) and sale costs. The loss from the sale of tangible and intangible assets reduces the tax base.

The CPT rate on profit from the sale of securities (except for cases indicated in the section "Tax benefits") is standard. Special rules apply to calculation of profit in REPO transactions.

Profit from the sale of Belarusian shares (participatory interest in the charter capital of Belarusian companies) is taxed at the rate of 9%.

Tax return filing and tax payment

The tax period for CPT is the calendar year. The amount of CPT for the tax period is determined on an accumulated basis.

The taxpayer submits a CPT return annually not later than 20 March of the year following the reporting tax period.

The taxpayer uses one of the following methods to determine CPT advance payments:

- On the basis of the taxpayer's activity in the preceding tax period: every quarter a company pays one fourth of the CPT amount for the preceding tax period. This method cannot be used if a company suffered a loss in the preceding tax period.
- On the basis of the presumed CPT amount: every quarter a company pays one fourth of the estimated CPT amount. The amount of tax so paid should be at least 80% of the actual amount of CPT according to the results of the current tax period.

The taxpayer can change the tax payment method (if the second calculation method replaces the first method). For this purpose it submits an adjusted tax return not later than the twentieth of the third month of the quarter in which the calculation method changed.

Current CPT payments are made not later than 22 March, 22 June, 22 September and 22 December of the current tax period.

Tax accounting

Tax accounting is based on financial statements with necessary adjustments. A taxpayer's accounting policy should stipulate the tax accounting procedure.

Deferred tax assets and liabilities arise when income and expenses in the accounting and for tax purposes coincide, but they are recognized in different reporting periods. Deferred tax assets and liabilities are accounted in accordance with the instructions of the Finance Ministry.

Typical cases when deferred tax assets and liabilities arise are:

- Use of capital allowance
- Loss carry forward
- Receipt of free assistance

Deferred tax assets and liabilities arise due to deductible and taxable temporary differences, accordingly.

Deductible temporary differences arise when:

- Expenses in the accounting are recognized in the current reporting period, while for tax purposes they are recognized in future reporting periods
- Income in the accounting is recognized in future reporting periods, while for tax purposes it is recognized in the current reporting period

Taxable temporary differences arise when:

- Expenses in the accounting are recognized in future reporting periods, while for tax purposes they are recognized in the current reporting period
- Income in the accounting is recognized in the current reporting period, while for tax purposes it is recognized in future reporting periods

An analytical record of temporary differences is maintained in the analytical tables, on separate off-balance sheet accounts or by another method. The chosen method is disclosed in an accounting policy.

The amount of deferred tax assets is determined by multiplying the deductible temporary difference of the current reporting period by the CPT rate effective on the reporting date. The amount of deferred tax liability is determined by multiplying the taxable temporary difference of the current reporting period by the CPT rate effective on the reporting date.

Deferred tax assets and liabilities are reflected in the accounting ledgers of the reporting period when the temporary differences arose.

Deferred tax assets are reconsidered annually at the reporting date to determine whether they can be recognized. Deferred tax assets are recognized when there are taxable temporary differences or when it is very likely that deductible temporary differences may reduce taxable profit in future. Previously recognized deferred tax asset is written off when there are no taxable temporary differences or it is unlikely that deductible temporary differences will reduce taxable profit in future.

Offset of taxes paid in a foreign state

The taxable profit of a Belarusian company includes profit from activity outside Belarus, in relation to which it is registered as taxpayer in a foreign state. To avoid double taxation, profits tax actually paid in the foreign state may be offset against CPT

in Belarus. The offset amount should not be greater than that to be paid in Belarus.

A Belarusian company must submit to the local tax authorities a reference from the foreign tax body confirming payment of the relevant amount in the tax period when the reference was given. The reference should indicate the following:

- Taxpayer's name
- Name of tax
- Date of tax payment and the period for which it is paid
- Object of tax and amount of tax base
- Tax rate and amount of tax paid to the foreign budget

For an offset, a taxpayer may also submit confirmation or another document in the form established by the foreign tax body or other competent authority if it confirms the amount of CPT paid in that state.

Transfer pricing

Tax authorities may control prices only during an on-site tax audit in the following cases:

- Sale of immovable property – when the prices are more than 20% lower than the market prices on the date of the immovable property's sale
- Foreign trade (including related party transactions) – if the price of one transaction (transactions with one entity) at the date of purchase/sale of goods is more than 20 billion rubles (approximately USD2.4 million) in one calendar year and the price of the transaction deviates by more than 20% from the market price at the acquisition or sale date

In this respect, foreign trade means:

- Sale (including commission, assignment and other similar agreements) of goods to foreign legal entities and/or foreign individuals
- Acquisition (including commission, assignment and other similar civil-law agreements) of goods from foreign legal entities and/or foreign individuals

The comparability of prices to market prices is checked only for the purpose of calculating CPT and only if it will increase the tax.

The Tax Code gives a list of prices that are not checked:

- Prices set by the requirements of the antimonopoly bodies (Price Policy Department of the Ministry of Economy)
- Prices formed by trade sessions at a registered commodity exchange or in the course of public sale
- Prices determined by an appraiser if an appraisal is mandatory for a transaction
- Prices regulated in accordance with Belarusian or foreign legislation
- Prices set by a state control body, or when there are limits to prices, markups or discounts, or when there are other limitations on profitability

The following methods are consistently used when determining, for tax purposes, the conformity of transaction prices to market prices:

- **Comparable uncontrolled prices method.** This compares the transaction price with the market price range for identical (or, if unavailable, homogeneous) goods. The market price range is two or more market prices determined under available data on prices for the relevant period or for the nearest date prior to the transaction. If the price of the transaction is less than the minimum value of the range, the minimum price of the market price range is used for tax purposes.
- **Resale minus method.** The market price is determined as the difference between the price at which the goods were resold by the purchaser and the expenses for resale and promoting the goods on the market, and also the purchaser's ordinary profit on resale of goods (without taking account of the purchase price for the goods).
- **Cost plus method.** The market price is determined as the sum of the incurred expenses and the ordinary level of profit for such activity. Ordinary expenses incurred in such activity for the production and/or sale of goods, transportation, insurance, storage, etc. are taken into account for this method.

Prices are compared with one or several transactions of goods. If the transactions incurred in different periods, comparable prices are adjusted for price indexes.

Withholding tax

Taxpayers

Taxpayers paying withholding tax (hereinafter, "WHT") are foreign companies that receive income from sources in Belarus without carrying out activity in Belarus through a permanent establishment.

Object of taxation. Tax base

The following income from sources in Belarus is taxable:

- Dividends and other related income
- Interest income from debt obligations
- Royalty
- Income from the alienation of immovable property, securities, and equity capital (stocks and shares)
- Income from the provision of advisory, accounting, legal, transport, messenger, intermediary and management services
- Other types of income (there is an exhaustive list of taxable income)

The tax base is usually determined as all income less documented expenses. If income is received in kind, tax is calculated with regard to its worth in cash.

The tax payment obligation arises at that date of income accrual to a foreign company that is the earliest of the following dates:

- The date of accounting of the completion of work (or services), the acquisition of immovable property and the acquisition of shares (participatory interest in charter capital), or a part of it
- The date of accounting of obligations to pay dividends interest, royalty, sale (redemption) of securities (apart from shares) and sale of goods under assignment, commission and other related agreements
- The date of accounting of income payment

Tax rates

The tax rates are as follows:

- 6% of payment for carriage and freight (including demurrage and other payments upon carriage) relating to international traffic and the provision of transport forwarding services
- 10% of interest income from any debt obligations irrespective of how they were formed
- 12% of dividends and related income as well as income from the alienation of all or part of Belarusian shares (participatory interest in the charter capital of Belarusian companies) (this rate is not applied when PUEs are sold)
- 15%, which is the generic rate applicable to other types of income subject to WHT

The double tax treaties of Belarus with other states may contain more preferential terms.

For information on the applicable WHT rates under double tax treaties and Belarusian legislation, see Appendix No. 4.

Tax agents

WHT is calculated, withheld and paid to the budget by Belarusian legal entities and individual entrepreneurs that accrue and pay income to foreign companies.

When foreign companies that do not have a permanent establishment in Belarus receive the following types of income from other foreign companies, they must submit a tax return and pay tax to the budget (it is not clearly regulated how a foreign company can meet such a requirement):

- Income from the alienation of all or a part of immovable property in Belarus
- Income from the alienation of all or a part of Belarusian shares (participatory interest in the charter capital of Belarusian companies)
- Income from leasing out assets (financial lease), rent and other use of assets that are in Belarus
- Income from immovable property in Belarus that is placed under fiduciary management
- Income from the provision of services in the fiduciary management of immovable property in Belarus
- Income from the use of, or provision of the right to use, in Belarus, property rights to works of literature, art and science, computer applications and other works concerning copyright and/or related rights
- Income from securities sale (redemption) transactions in Belarus
- Income from holding and/or taking part in shows in Belarus and from sideshows and menageries

Individuals can also be regarded as tax agents in several transactions.

Provisions of double tax treaties

To apply the provisions of double tax treaties, a company must receive confirmation that it has a permanent location in a foreign state with which Belarus has a valid double tax treaty. Such confirmation may be provided in the form established by the Taxation Ministry or in any other form set by the government of a foreign state.

In the latter case, such confirmation should contain the following mandatory data:

- Date of issue (or term of validity)
- Full name of the foreign company and its registered address
- Confirmation that the foreign company was (is) a tax resident of a certain state in order to apply the provisions of international double tax treaties in the period under consideration

Confirmation should be submitted to the tax authorities either directly or through a company that withholds income tax.

If the foreign company does not meet this requirement, the tax agent withholds the tax at the rates set by the Tax Code. This tax, however, can be offset or reimbursed when the foreign company presents the relevant documents.

Tax return filing and tax payment

A tax period is a calendar month.

A tax agent submits a WHT return not later than the twentieth of the month following the tax period. Tax should be paid to the budget not later than the twenty-second of the month following the tax period.

Value added tax

Taxpayers

The VAT payers are:

1) Companies
2) Individual entrepreneurs (with regard to several specific features)
3) Trustees
4) Individuals obligated to pay VAT, which is collected when goods are imported into Belarus

Tax registration

There is no separate registration for VAT purposes. A company undergoes tax registration upon its state registration or when a representative office is being registered and is effective for all taxes.

Object of taxation. Tax base

VAT applies to:

- The sale of goods (work, services) and property rights in Belarus, including exchange, transfer free of charge, the sale of goods by a company to its employees, the lease-out of units and the handover of goods as pledge in the event of failure to fulfill obligations
- The import of goods into Belarus.

When goods (work and services) and property rights are sold, the VAT base is:

- The sale prices (tariffs) of goods (work, services) and property rights including excise duties (if applicable) without VAT
- Regulated retail prices with VAT included

For tolling operations from customer-supplied raw materials, the VAT base is the cost of treatment, processing or other transformation of the raw materials without VAT.

When conducting intermediary activity, the VAT base is the amount received as remuneration under assignment, commission and other similar agreements.

When an object of financial lease (leasing) is transferred by the lessor to the lessee, the tax base is the amount of lease payments.

Tax rate

The basic VAT rate is 20%. It applies to most goods and services sold in Belarus.

The sale of farm products (apart from flowers and decorative plants), livestock products (apart from furs), fish and apicultural goods produced in Belarus, as well as the import and/or sale of baby food and children's goods in accordance with the list approved by the President, are subject to VAT at 10%.

The import of cut and uncut diamonds of all types and other precious stones into Belarus for production needs from the member-states of the Customs Union of the Republic of Belarus, the Russian Federation and the Republic of Kazakhstan (hereinafter, "the Customs Union") is subject to VAT at 0.5%.

Goods for export and transport forwarding services related to export are subject to VAT at 0%.

Place of sale of goods (work, services) and property rights

Belarus is the place of sale of goods if the goods are on its territory, if they are not shipped and are not transported and/or if the goods are on the territory of Belarus when they begin to be shipped or transported.

Belarus is the place of sale of work, services and property rights if:

- The work and services directly relate to immovable property (except for aircraft, marine vessels, inland ships and spacecraft) that is in Belarus (this provision also applies to leasing out immovable property and taking it on lease)
- The work and services relate to movable property within Belarus
- Services are actually rendered in Belarus in the fields of culture, art, education, physical training, tourism, recreation and sports
- The purchaser of the work, services and intellectual property rights is engaged in activity in Belarus and/or the purchaser's location/residence is Belarus

The last provision applies to the sale (transfer) of intellectual property rights; the rendering of audit, advisory, marketing, legal, accounting, engineering (including pre-project and project services and design and development), advertising and design services; the rendering of services pertaining to processing and providing information; the fulfillment of R&D, experimental design and experimental technological (or simply technological) work; the rendering of services supporting computer applications and databases and providing disk space; the rendering of services pertaining to projecting, developing, formalizing and modifying web pages and creating databases and ensuring access to them; the rendering of services pertaining to providing and hiring staff if it works at the purchaser's premises; the rendering of services pertaining to renting and leasing movable property, except for transport vehicles; the rendering of services (work) pertaining to developing computer applications and databases (programs and information sources and computers) and adapting and modifying them; and a few other services.

If the sale of work and services is of an auxiliary nature in relation to the key work and services, the place of this auxiliary sale is deemed the place of sale of the key work and services.

Recognition of sales revenue

The taxpayer recognizes sales revenue for VAT purposes as goods (work, services and property rights) at the moment of their supply or of the payment for the supply.

For the supply method, the time of the actual sale is determined as the day on which goods are shipped (work is performed, services are rendered) and property rights are transferred. The date of shipment is deemed:

- The date of their release to the purchaser, to the consignee or to a company (individual entrepreneur) that transports (forwards) the goods if the vendor does not deliver (transport) the goods or does not bear the costs of their delivery (transportation)
- The date when transportation begins in other cases

The date of the supply of work or services is deemed the date of their transfer under supporting documents (delivery and acceptance statements and other similar documents).

The date of property rights supply is the date on which the right to receive payment arises.

If a taxpayer recognizes revenue upon payment for goods (work, services) and property rights, the time of the actual sale is the day on which an entry is made in accounting for receipt of cash from the purchaser, but not later than 60 days from the day of supply of goods (work, services, property rights). If payment is not received within 60 days from the date of transfer, VAT is charged on the relevant amount of receivables.

VAT-exempt turnover

The following sales turnovers are VAT-exempt:

- Medicines, medical devices, instruments, equipment and articles, as well as medicines, devices, instruments, equipment and articles serving veterinary purposes according to the lists approved by the President
- Insurance services, bank operations
- Medical and veterinary services according to the lists approved by the President
- Cultural services according to the list approved by the President
- Goods (work, services) produced (performed, provided) by taxpayers who have on average at least 50% of disabled persons on their industrial production staffs for the considered period (except

for excisable goods, broker and other intermediary services, the lease-out of property and leasing)

- R&D, experimental design and experimental technological work entered in the state register according to the procedure determined by the President
- Property rights to industrial units
- Goods of own production by the vendor-Belarusian tax resident under a sale/purchase agreement with the lessor-Belarusian tax resident who acquires the goods to subsequently transfer them under an international lease agreement outside Belarus with right of repurchase
- Interest-bearing cash loans

The following are also VAT-exempt when imported into Belarus:

- Transit goods
- Film copy software and cultural values imported by cultural companies
- Goods intended for official use by diplomatic missions and consulates of foreign states or for personal use by the diplomatic and/or administrative and technical staff of these missions and consulates, and by international organizations and their representations; diplomatic mail and consular valises
- Goods relating to foreign aid gratis and goods receivable (received) as international technical assistance and/or acquired by means of international technical assistance, which are intended for the purposes determined by a project or a program for international technical assistance, according to the procedure and under the terms set by the President
- Equipment and devices for R&D, materials and parts making up a set for R&D and for experimental design and experimental technological work that were imported by Belarusian residents according to the procedure determined by the President

Import of goods

Import operations are subject to VAT.

In the event of import from states that are not members of the Customs Union, the tax base is determined as the amount that includes the customs value of goods for which customs duties and excise duties (when excisable goods are imported) are to be paid. VAT is collected by the customs authority.

Calculation of VAT

The VAT to be paid to the budget is calculated as the difference between the total VAT at sale and the VAT credit.

VAT credit is available for input VAT amounts that are:

- Charged by vendors registered as taxpayers with the Belarusian tax authorities to the taxpayer upon acquisition of goods (work, services) and property rights in Belarus
- Paid by the taxpayer when goods are imported into Belarus
- Paid into the budget when goods (work, services) and property rights are acquired in Belarus from foreign companies that are not registered with the Belarusian tax authorities

The taxpayer is entitled to credit input VAT if:

- Goods (work, services) and property rights were acquired for VATable transactions
- The VAT charged or paid upon acquisition, or paid upon importation of units, is entered into accounting and the purchase ledger, provided that the ledger is maintained by the taxpayer
- The amount and rate of VAT are indicated in the primary accounting and settlement documents are submitted by the supplier to the purchaser of goods (services)
- VAT is paid to the seller of goods (services) (when the taxpayer recognizes the revenue upon payment)

If the VAT credit is greater than the VAT calculated upon the sale of goods (work, services) and property rights, the difference is credited first and foremost from the total VAT in the next tax period or is to be refunded to the taxpayer in certain cases.

VAT when acquiring goods (work, services) from foreign companies

When a foreign company without permanent establishment or Belarusian tax registration sells goods (work, services) and property rights to Belarusian companies and individual entrepreneurs, they must calculate VAT and pay it to the budget.

This VAT is to be credited according to the general procedure.

Tax return filing and payment of VAT

The tax period is the calendar year. VAT payers submit a VAT return monthly or quarterly (at the taxpayer's choice) on a progressive total basis by the twentieth of the month following the reporting period. The deadline for paying VAT is the twenty-second of the month that follows the reporting period.

VAT in transactions with Russian and Kazakh companies

The Customs Union legislation sets forth a special procedure for paying VAT on sale of goods (work, services) between companies of the member-states of the Customs Union.

Export of goods

When exporting goods, taxpayers apply the 0% VAT rate and are exempt from paying excise duty in the country of registration. The taxpayers must submit a set of documents to the tax authorities within 180 days from the date on which the goods are transferred.

Import of goods

The importing company has a VAT and excise duties obligation. It determines the tax base on the basis of the cost of the acquired goods, including excise duties (for excisable goods). The cost of the acquired goods is the supplier's price. VAT is collected by the tax authorities (this differs from the standard order, according to which the customs authorities collect VAT).

Export and/or import of work and services

VAT is collected in a member-state of the Customs Union whose territory is deemed the place of sale of work and/or services. The tax base, VAT rates and procedure for collecting VAT and tax benefits are determined by the legislation of that state.

Real estate tax

Taxpayers

The payers of real estate tax (hereinafter, "RET") are companies and individuals, taking into consideration the specific features given below.

In relation to buildings and constructions (apart from those put under fiduciary management and/or acquired during fiduciary management) situated in Belarus that were leased by legal entities or taken for other chargeable or free-of-charge use, RET payers are:

- For Belarusian companies: a company that has this building or construction as well as a parking place on the balance sheet under contractual terms for rent, lease or other chargeable or free-of-charge use
- For foreign companies that are not engaged in activity in Belarus through a permanent establishment, and for individuals (not discussed in this brochure): the leaseholder company (lessee, borrower)

Object of taxation. Tax base

RET objects are:

- Buildings and constructions, including over-normative construction in progress, and parking places that are owned or possessed or under the economic management or operating management of the taxpayer
- Buildings and construction as well as parking places situated in Belarus that belong to individuals
- Buildings and construction situated in Belarus that are leased by individual entrepreneurs if, under the contractual terms of the leasing agreement, the objects are not on the balance sheet of the leasing company

The tax base is the net book value of buildings, constructions and parking places as well as the cost of over-normative construction in progress as of 1 January of the calendar year.

Tax rates

The RET rate is 1%. For over-normative construction in progress it is 2%. The local administration bodies may increase or reduce the tax rates for immovable property for certain categories of taxpayers, but by no more than half. Taxpayers calculate and pay RET at decreased/increased rates from 1 January of the year following the year in which the relevant decision was made.

Tax benefits

RET exemptions apply to:

- Buildings and constructions that are intended to protect and improve the environment according to the list approved by the President
- Agricultural buildings and constructions that are either used or to be used by companies to produce fruits and vegetables, meat, fish and apicultural products
- Buildings and constructions for one year after they are put into operation for the first time
- Road service units for two years from the date on which they are put into operation
- Buildings and constructions of research companies and scientific and technological facilities, and knowhow transfer centers (until 1 January 2016)

Several other units, including buildings and constructions deemed to have material, historical and cultural value, as well as public railways and roads, are exempt from RET.

Tax return filing and tax payment

The tax period is a calendar year.

A RET return is submitted to the tax authorities by 20 March of the reporting year. Tax is paid in the amount of one fourth of the annual amount of tax every quarter not later than the twenty-second of the third month of a quarter.

Other republican taxes

Land tax

Land tax payers are companies and individuals that possess land plots on the basis of the right of permanent or temporary use, lifetime inheritance demesne or ownership right.

The land tax base is determined on the basis of the land's value in the State Land Register, its purpose and size.

Double tax rates apply to land lots (or parts of them) located under buildings over-normative construction is in progress. A taxpayer must apply a double tax rate from the first of the month following the month in which the normative period of construction expired.

Local government bodies may increase/reduce land tax rates twofold for certain categories of taxpayers. Taxpayers must apply the increased or reduced tax rates from 1 January of the year following the year in which the relevant decision was adopted.

The land tax period is a calendar year.

Taxpayers file tax returns to the tax authorities annually by 20 February of the current year. They pay tax in quarterly installments not later than the twenty-second of the second month of each quarter. For agricultural land, taxpayers pay tax not later than 15 April, 15 July, 15 September and 15 November.

Offshore duty

The following transactions are subject to an offshore duty:

- Transfer of cash by a Belarusian resident to an offshore resident or to another person (under commitment to an offshore resident), or to an account opened in an offshore zone
- The fulfillment of non-cash obligations to an offshore resident, except for cross obligations when an offshore resident transfers cash to the account of a Belarusian resident
- Transfer of property rights and/or obligations in the course of a person's substitution, if the parties to the initial transaction are Belarusian and offshore residents

The list of offshore zones includes the British Virgin Islands, Gibraltar, the State of Delaware (USA), etc.

The offshore duty rate is 15%.

The Tax Code establishes certain exemptions from offshore duty, i.e., offshore duty does not apply when a Belarusian resident returns loan principal and interest to an offshore resident.

Ecological tax

The ecological tax base is the actual volume of:

- Pollutant emission into the atmosphere
- Emission of waste waters
- Production wastes that are to be stored or buried
- Import of ozone-depleting substances, including those contained in products, into Belarus

The Tax Code establishes ecological tax rates for each taxation unit. The tax rate may vary from BYR624,000 (approximately USD73) to BYR126.8 million (approximately USD14,920) per ton of a contaminant. In some cases, taxpayers must apply special coefficients to the ecological tax rates.

Excise duties

The following are subject to excise duties:

- Excisable goods that taxpayers produce and sell in Belarus
- Excisable goods imported into Belarus
- Excisable goods imported into Belarus, upon sale

Excisable goods include alcohol products, tobacco items, motor fuel, etc. The Tax Code establishes excise duty rates in a fixed amount per physical unit of excisable goods (specific rate) or in a percentage of their value (ad valorem rates).

Other republican taxes:

These taxes include:

- Tax on the extraction of natural resources
- Duty for the use of public roads of Belarus by motor transport vehicles of foreign states
- Stamp duty
- Consular duty
- State duty
- Patent fee

Local taxes and duties

The local government bodies set local taxes and duties. The Tax Code regulates the general rules applicable to these taxes and duties. Local taxes and levies include:

- Dog tax
- Resort duty
- Procurement duty

Special taxation regimes

Unified tax for manufacturers of agricultural products

Unified tax applies to (a) companies with revenue from the sale of manufactured agricultural products of at least 50% for the previous fiscal year, and also to (b) companies with branches or other separate subdivisions which manufacture agricultural products and have a separate balance sheet and bank account, provided that their sales revenue from the manufactured agricultural products is at least 50%. The tax rate is 1%.

Simplified tax system

Companies may apply a simplified tax system provided that their average staff size is not more than 100 employees and their gross revenue is not more than BYR9 billion (approximately USD1.059 million) for first nine months of the year before the year in which the taxpayer is planning to apply the simplified tax system (the latter condition also applies to individual entrepreneurs).

The tax base is the total amount of revenue from the sale of goods (work, services) and property rights as well as non-sale income.

Tax rates in the simplified tax system are the following:

- 7% – for companies and individual entrepreneurs who do not pay VAT
- 5% – for companies and individual entrepreneurs who pay VAT
- 2% – for companies and individual entrepreneurs in relation to revenue from the sale of goods and services outside Belarus. This provision is effective until 31 December 2013
- 15% – for companies and individual entrepreneurs who use gross income as the tax base

Gambling tax

Gambling tax applies to game tables, game machines, totalizators and bookmaker offices. The Tax Code sets fixed tax rates for gaming business per taxation unit. The taxpayer must register these units with the tax authorities before their installation (use).

The income from gambling activity is not subject to:

- VAT, except for importation VAT
- Corporate profit tax

Lottery tax

The lottery tax base is the difference between the amount of income received from organizing and holding lotteries and the amount of the lottery prize. The lottery tax rate is 8%.

Income from lotteries is not subject to:

- VAT, except for importation VAT
- Corporate profit tax

Unified tax on the activity of individual entrepreneurs and other individuals

Payers of the unified tax are individual entrepreneurs as well as individuals who do not perform entrepreneurial activity. The Tax Code establishes a list of taxable activities and basic rates in Belarusian rubles per month. The local authorities set the unified tax rates per month within these basic rate limits. The Tax Code also provides for several unified tax benefits.

Customs

Overview

Customs regulation in Belarus is based on international standards. Belarus is a member of the World Customs Organization, the International Convention on Harmonized Commodity Description and Coding System (Brussels, 1983), the Convention on Temporary Import (Istanbul, 1990) and the International Convention on the Simplification and Harmonization of Customs Procedures (Kyoto Convention) (Kyoto, 1973). Belarus is expected to enter the World Trade Organization (hereinafter, the "WTO").

In addition, Belarus is a party to the Customs Union. For this reason the unified customs legislation of the Customs Union, including the Customs Code of the Customs Union (hereinafter, the "Customs Code"), is directly applicable in Belarus.

Customs Union of Belarus, Kazakhstan and Russia

The Customs Union was established in 1995. The main provisions of Customs Union legislation, however, were introduced only in 2009–2010. The Customs Union actually started to function on 1 January 2010 when the Unified Customs Tariff (a set of import duties applied by all three member-states) and the unified system of non-tariff measures (licensing requirements on importation) were adopted.

The most significant changes took effect on 1 July 2010, when the Customs Code of the Customs Union and other important international treaties entered into force. Currently, goods manufactured or released for domestic consumption in one participating country can circulate in the others free of customs clearance and without payment of customs duties and VAT or any economic limitations. Such goods do not have to be placed under customs procedures.

There are several exceptions to the Customs Union rules. Certain goods must still be declared to the customs authorities when they are imported from one member-state to another.

Import duties

Imported goods are generally subject to import customs duties and import VAT. Certain categories of goods (such as alcohol, tobacco and gasoline) are also subject to excise duties (see the section *"Other republican taxes"* above).

Customs duty rates generally vary from 0% to 25% of the customs value of the goods. VAT is payable at the standard rate of 20%, which is calculated on the basis of the customs value and the customs duty. Import VAT paid by the importer is generally creditable against its output VAT.

The current customs tariff sets zero duty rates for books, some kinds of medicines, certain technological equipment and some other goods. Humanitarian aid, goods

needed to rectify the consequences of natural calamities, accidents and disasters and diplomatic goods are exempt from customs duties and VAT.

Export duties

Certain categories of goods (e.g., oil) are subject to export customs duties.

Customs value

Customs valuation in Belarus is based on the WTO rules. The customs value of imported goods is usually determined as the value of the goods as indicated in the invoice plus certain other costs related to the importation of the goods, but not included in the transaction price. These additional costs are typically the costs of delivery of the goods to the border (e.g., transportation and insurance costs), royalties or other payments for the use of intellectual property, the costs of materials provided free of charge by the purchaser to the seller, etc. This method of calculation of the customs value of imported goods is called the transaction value method.

Normally, the customs value is based on CIP delivery terms (Incoterms 2000 – Carriage and Insurance Paid To). If the customs value cannot be estimated using the transaction value method, other methods may apply: the price of a transaction involving identical or similar goods, the deduction cost method, the summation cost or the reserve method.

Customs coding

At present, the Unified Customs Nomenclature of the Customs Union applies in Belarus. This nomenclature is based on the Harmonized Commodity Description and Coding System of goods. In principle the first six digits of the commodity code should be identical in Belarus and in the EU, although there are sometimes differences in practice. It is possible to obtain a binding decision from the customs authorities concerning the classification of goods.

Customs procedures

All cross-border transfers of goods and vehicles in Belarus are carried out under one of the customs procedures prescribed by the Customs Union legislation. Each customs procedure provides different terms for clearance. This has a considerable effect on the tariff and non-tariff barriers under import and export transactions. Below is the summary of the main customs procedures.

Release for domestic consumption

The customs procedure for release for domestic consumption is used when goods are imported into Belarus without the intention to re-export them. This is the most frequently used and the most straightforward procedure. Under this procedure, after the payment of customs duty, import VAT and customs clearance fees, the goods are in free circulation in the Customs Union.

Bonded warehouse

When goods are imported under the bonded warehouse customs procedure, they are kept in a special warehouse under the supervision of the customs authorities (customs bonded warehouse). The goods are kept under this procedure until their sale to the final customers, their final use in the Customs Union or their re-exportation outside the Customs Union. The payment of customs duties and import VAT is postponed until the actual sale of the goods to the final customers in the Customs Union and their removal from the customs bonded warehouse.

Goods kept in a customs bonded warehouse must remain in unchanged condition, i.e., it is prohibited to manufacture, assemble or transform goods stored in a customs bonded warehouse.

The period of storage of goods in a customs warehouse cannot exceed three years. After the expiration of the storage period the goods should be placed under another customs procedure. If the goods are released for domestic consumption, customs duties and VAT are due. If the goods are re-exported outside the Customs Union, no customs duty or import VAT are due.

Temporary importation

The temporary importation procedure is the customs procedure under which the use of goods in the Customs Union is permitted with full or partial exemption from customs duties and import VAT.

The time period for temporary importation cannot exceed two years (or 34 months for leased fixed assets).

The full exemption is granted in limited cases for goods that are intended to be used in non-sales operations. Typical examples of temporary importation with full exemption are importation of goods for an exhibition or for testing in the Customs Union.

The partial exemption is granted in other situations when it is intended that the

goods will be maintained in the Customs Union for a limited period of time and re-exported afterwards. Under the partial exemption, the importer has to pay customs payments in monthly installments of 3% of the total amount calculated as if the goods were released for free circulation. These amounts are not refunded if the goods are re-exported.

Once the period of temporary importation has expired, the goods can be either re-exported out of the Customs Union or released for domestic consumption in the Customs Union. If the goods are finally released for domestic consumption, the outstanding customs payments should be paid together with late payment interest.

This procedure is widely used in practice, in particular in the case of importation for leasing in Belarus and also by general contractors for construction projects.

Customs processing procedures

There are three different processing procedures.

Customs processing procedure on the customs territory. Companies use this procedure if their business involves processing of goods in the Customs Union. Under certain conditions they can import goods into the Customs Union for their processing without payment of customs duty and import VAT. A bank guarantee may be required to secure the payments of customs duties and taxes that can be due in case of violation of the conditions for this procedure.

Once the goods have been processed and constitute finished products, they should be exported. If the finished products are released for domestic consumption in the Customs Union, customs duty and import VAT are due on the value of the raw materials, as is late payment interest.

Processing of goods for domestic consumption. Under this customs procedure, customs duties are due only once the finished products are released for domestic consumption in the Customs Union territory. Customs duties apply to the finished goods. Imported raw materials for processing are exempted from customs duties, but are subject to import VAT. This procedure is available only for certain types of finished goods the list of which is to be set by the legislation.

Processing of goods outside the customs territory. The procedure of processing of goods outside the Customs Union allows exportation of goods for their processing and subsequent re-importation into the Customs Union. Customs duties and import VAT are due only on the value added by the processing operations, but not on the value of the imported goods. This procedure is very useful for goods that need to be exported for repair outside the Customs Union.

CIS free trade regime

The free trade regime that is currently in force in the CIS means that customs duties are not applicable to import of goods originating from the CIS countries to Belarus. It is necessary to import goods from another CIS country under an agreement between two CIS residents to use this benefit. VAT and excise duties are charged in this respect.

Eight CIS countries (Belarus, Russia, Armenia, Kazakhstan, Kyrgyzstan, Moldova, Tajikistan and Ukraine) signed the Free Trade Zone Treaty in St. Petersburg on 18 December 2011. Uzbekistan announced its intention to be a party to the treaty. The document entered into force on 20 September 2012. Currently the Treaty is ratified by Belarus, Russia, Moldova, Armenia and Ukraine.

The Free Trade Zone Treaty abolishes import and export duties. It provides guarantees of the nondiscriminatory application of nontariff regulations and the national regime.

The document also provides for the abolition of quantitative restrictions in mutual trade and equalizes the parties in their rights in the event of state procurements. It also envisages freedom of transit and the possibility to apply special protective measures in mutual trade. It regulates the issues of providing subsidies, establishing technical trade barriers, applying sanitary measures and introducing restrictions to ensure the balance of payments.

The Free Trade Zone Treaty replaced the current bilateral and multilateral free trade agreements between the member-countries.

The treaty differs significantly from the agreements effective in the CIS because it has an instrument obliging parties that do not fulfill their contractual obligations to honor their commitments. The rules for resolving disputes, which are in the appendix to the treaty, are such an instrument.

Financial reporting and auditing

The general provisions of the accounting standards, including the Law on Accounting and Reporting, envisage that the main aim of accounting is to establish full and accurate information about the activity of a company and its assets and liabilities.

The Law on Accounting and Reporting applies to legal entities of Belarus, branches and representative offices, including foreign companies' representative offices, business groups and simple partnerships (parties to a joint venture agreement).

Foreign companies' representative offices in Belarus can form their accounting policy on the basis of their home jurisdiction's rules, provided these rules comply with Belarusian legislation and do not contradict international standards of accounting and reporting.

The Law on Accounting and Reporting does not apply to self-employed entrepreneurs (they are regulated by other legal acts).

The new Chart of Accounts and instructions on its application, as well as other regulatory documents elaborated on the basis of the International Financial Reporting Standards (IFRS), came into force on 1 January 2012. This is helping to gradually effect a transition to the new accounting methodology and to reconcile Belarusian accounting with IFRS.

Key concept

Accounting should be based on accounting segregation of the assets and liabilities of an organization, on the sequence of accounting policy application, and on the time of certain facts of economic activity. Accounting principles include accrual, going concern, prudence, completeness, timeliness, relevance, substance over form, matching of revenues and expenses, comparability, consistency and rationality of concepts and principles.

The application of these principles, however, may differ from the application that is common in other countries. For example, in practice Belarusian accounting tends to focus on form rather than substance: the laws are very specific as to the documents required to support a transaction. This emphasis on the legal form may override the application of other accounting principles.

The going concern issue is relevant in this emerging market due to the possibility that some companies may not continue their economic activity in their current financial position.

Accounting methods

Belarusian companies should base their accounting on the policy that is approved by the director's order annually. The policy indicates the accounting methods that a company uses throughout the year.

The following methods apply to recognizing revenue:

- Accrual method (in this case, companies recognize revenue at the actual delivery of goods, work or services, followed by the submission of settlement documents to the buyer)
- Cash method (in this case, companies recognize revenue upon the actual receipt of cash from the counterparties)

Most Belarusian companies use the accrual method. Banks use the accrual method only.

Foreign-currency operations

Companies should post accounting entries and prepare financial statements in Belarusian rubles.

For accounting purposes, companies recalculate business operations in foreign currency in Belarusian rubles at the NBRB's official currency rate as of the day of business operation. The NBRB determines the exchange rate of the most widely used foreign currencies on the basis of trading on the Belarusian Currency and Stock Exchange during the previous day.

Generally, companies buy and sell foreign currency on the Belarusian Currency and Stock Exchange, but in certain limited cases its involvement is not required.

Fixed assets

Fixed assets are recognized at their initial or reappraised value. One of the following methods can be used to depreciate fixed assets:

- Linear method
- Nonlinear method (calculated by the direct sum-of-the-years' method, the inverse sum-of-the-years' method or the diminishing balance method with an acceleration multiplier of 1 to 2.5)
- Production method

The linear method is the most frequently used. Companies define a fixed asset's useful life on the date of its acquisition. Useful life period frequently corresponds to a fixed asset's presumed lifespan. This lifespan can be adjusted if the fixed asset's state changes. Although the methods and means

of charging depreciation can be chosen somewhat freely, the range of available options has become narrower due to several legislative restrictions.

Fixed assets, construction-in-progress and uninstalled equipment (which is noncurrent assets) are reappraised on the basis of an index published by the Belarusian National Statistical Committee. If this index attains the level of 103% or more the reappraisal is performed:

- For buildings, structures and transmitters – by all companies
- For other fixed assets, construction-in-progress and uninstalled equipment – by state companies and companies with over 50% of state equity (unless they are commercial companies with foreign investments)

A company must reappraise its fixed assets annually (at the beginning of the year following the reporting year). It must use one of the following three acceptable methods:

- Direct appraisal method
- Index method
- Currency value conversion method

A group of similar fixed assets can be reappraised not more than once a year. Land and other natural units do not require reappraisal.

For accounting purposes, companies can set an asset's useful life within the thresholds established by law. When legislation allows companies to make a revaluation, the decision to make it may be adopted with regard to:

- The entire property
- Fixed assets which belong to certain groups and subgroups or which are classified by certain fixed asset codes
- Certain fixed assets and uninstalled equipment
- Construction-in-progress with regard to all the costs concerning the unit to be reappraised.

Inventories

Companies recognize inventories at their initial value. They use one of the following methods to determine inventories' initial value:

- Average cost method
- FIFO method
- Cost of each unit method

The first method is the most frequently used. The inventories' actual cost should include direct costs and related indirect production costs.

Disclosure requirements

The statutory financial statements should comprise the following:

- The balance sheet
- The profit-and-loss statement
- The equity statement
- The cash flow statement
- The statement on the purposeful use of the received financial resources
- Explanatory notes

The Finance Ministry establishes the format for financial statements' presentation. Financial statements are drawn up in the Belarusian and/or Russian languages. The Belarusian ruble is the reporting currency.

Reporting requirements

The reporting year for all (except newly formed) companies is the calendar year from 1 January to 31 December. For newly formed companies, it is from the date of their state registration to 31 December of the same year.

Companies present annual financial statements to their owners, to the Taxation Ministry and to the state statistics authorities within 90 days after the end of the reporting year.

The annual financial statements should be considered and approved as prescribed by a company's foundation documents.

Annual financial statements of the following companies should be made public:

1) Banks and nonbanking credit and financial institutions
2) Insurance and reinsurance companies, insurance brokers
3) Open joint-stock companies
4) Issuers of securities

All companies registered with the Belarusian Currency and Stock Exchange present quarterly financial statements (balance sheet, profit-and-loss statement, etc.) and additional information to the Finance Ministry within 30 days after the end of the quarter. They also present annual financial statements when the reporting year ends.

Audit requirements

Financial statements of the following companies are subject to obligatory audit:

- Open joint-stock companies
- Banks and nonbanking credit and financial institutions
- Stock exchanges
- Commercial companies with foreign investments
- Insurance companies and insurance brokers
- HTP residents
- Companies responsible for the payment of guaranteed reimbursement of bank deposits of individuals
- Other companies and individual entrepreneurs who earned over EUR600,000 in the previous reporting year

Discrepancies between IFRS and the Belarusian statutory accounting principles

The Belarusian requirements for commercial companies are based on the Civil Code, the Law on Accounting and Reporting, the company's chart of accounts and incorporate accounting regulations and legal acts of the Finance Ministry and the NBRB. While a number of requirements formally follow IFRS, their application and interpretation may be materially different.

Despite the existence of accounting standards in the banking system and in legal acts of the Finance Ministry, Belarusian statutory accounting depends on various orders and letters issued by the Finance Ministry and the NBRB that prescribe accounting methods and approaches.

These and other circumstances may result in departures from the standard requirements and consequently in more inconsistencies with IFRS in addition to those outlined below. The major differences are as follows:

- In spite of the prescribed principle of prudence in financial statements standards, the accrual concept is not fully implemented in statutory accounting of companies when accounting for income (which may be recognized on a cash basis)
- Definition of reporting and functional currency (financial statements for Belarusian statutory purposes must be prepared in Belarusian rubles only)
- The mandatory existence of supporting documentation prepared in accordance with the prescribed format for both accounting and tax purposes
- The impact of hyperinflation is not reflected in the Belarus accounting system
- The absence of the concepts of "fair value", "amortization value" and "asset impairment" in the Belarus accounting system when recognizing and appraising financial assets
- In spite of the existing guidance for the preparation of consolidated financial statements that requires that the parent company prepare separate and consolidated financial statements if it has subsidiaries, the order is not fully complied with and enforced; in IFRS, on the other hand, the consolidation concept must be fully applied
- The regular revaluation of entire classes of fixed assets under the Belarusian statutory accounting principles is allowed under the prescribed rules
- Differences in the accounting for equity and reserves
- Accounting and reporting in the banking system is more developed in terms of IFRS concepts (for example, fair value concept, goodwill, etc.).

The use of different national statutory accounting standards and legal acts makes the comparison of opportunities and financial decisions more difficult and costly for the potential investor or user of the financial statements. Differences in accounting standards between IFRS and the Belarusian statutory accounting principles also impose additional costs on companies that must prepare financial information based on multiple reporting models in order to raise capital in different markets. The differences also create potential confusion as to which are the real numbers. The gradual transition to IFRS under the guidance of the Council of Ministers and future adoption of new laws on the preparation of consolidated financial statements in accordance with IFRS are extremely important steps for the development of accounting in Belarus and for global convergence of accounting principles.

Pursuant to the draft accounting law, socially important companies will be required to prepare statutory and IFRS finance reports in Belarusian rubles effective from 2013. The Belarusian ruble will be the reporting currency and IFRS reports would then be subject to obligatory audit. In addition to banks, the list of such companies will also include public joint-stock companies, insurance companies, professional participants in the securities' market and stock exchanges.



Individuals



Employment

The Belarusian labor market has become to a large extent an employee's market. The lack of qualified employees in some industries has become critical and sharpened competition. This situation has its roots in various factors. The decrease in the Belarusian population and a certain loss of educational level have led to a further decrease in the qualified labor force in Minsk and other regions.

The situation radically changed fairly recently due to the economic crisis. Many companies have faced the necessity to reduce their headcount or introduce part-time employment, as well as cut the benefits granted to employees.

The Belarusian Labor Code

The Belarusian Labor Code (hereinafter, the "Labor Code") forms the basis of labor relations in Belarus. It establishes procedures for hiring and dismissal of employees, as well as regulations concerning working time, vacations, business trips, salary payment, etc. The Labor Code continues to be very protective for employees. The Decree of the Belarusian President No. 29 of 26 July 1999 operates along with the Labor Code and sets the peculiarities of fixed-term employment agreements.

Belarusian labor law covers not only Belarusian citizens, but also expatriates working in Belarus, provided that the employment agreement is entered into in Belarus.

Normal working hours in Belarus are eight hours per day and 40 hours per week. Belarusian law is stringent in limiting overtime hours. Under the Labor Code, overtime work may technically be required only upon consent from an employee and should be compensated at an increased rate or by provision of additional days off. The maximum duration of overtime work within a year is 180 hours, provided that an employee does not work overtime for more than 10 hours per working week. A working day which includes overtime work should not be longer than 12 hours. It is possible to establish a non-standardized working hours regime. Under this regime hours are not fixed, but the employee must then be provided with up to seven days of additional annual vacation.

In general, employees must be granted at least 24 calendar (as opposed to working) days of paid vacation a year.

Maternity leave (generally 126 days) is compensated by the Fund for the Social Protection of People in the amount of 100% of average salary, but it shall not exceed triple the amount of the average salary set by the legislation. Upon giving birth to a child, mothers are entitled to receive a onetime allowance of approximately USD1000. Employees are also eligible to take child- care leave to take care of a child until he/she reaches the age of three years. In this case the employer will have to pay a monthly allowance of about USD100 per month. The Fund for the Social Protection of People will finance this allowance.

Employees are also compensated for periods of illness by the Fund for the Social Protection of People: 80% of average salary for working days of the first six calendar days of illness and 100% for the rest of the days of illness.

Labor regulations in Belarus guarantee additional vacation time and several other benefits for individuals working in harsh environmental conditions.

Recruitment

In addition to a written employment agreement with an employee, recruitment must be supported by internal documentation through the issuance of a formal appointment order by the employer. This order states the name, position and date of appointment of the new employee. According to the labor law, it is normal for an employment agreement to be entered into for an indefinite term.

In fact, entering into a fixed-term employment agreement under the above-mentioned Decree No. 29 is used even more often in Belarus because it provides notable benefits to employers. These benefits include, inter alia, the possibility of entering into an agreement for one year (and up to five years) irrespective of the employer's industry and the type of work to be done; and wider opportunities for an employer to terminate a contract at its own initiative.

An employer hiring an employee may usually establish a probation period with a maximum duration of three months.

The employer is also responsible for the proper maintenance of labor books for each employee. If the place of employment is the first one for the employee, the employer must fill in a labor book and apply for a Social Security Card for the employee.

Termination

An employee may be terminated for one of the reasons listed in the Labor Code. The procedure for termination is also provided in the Labor Code and should be strictly followed to reduce the risk of challenge in court. The Labor Code provides for the following general grounds for employment termination:

1) Mutual consent of the parties
2) The expiry of the term of the employment agreement (in case of a fixed-term agreement)
3) The employee's initiative
4) The employer's initiative
5) Circumstances beyond the parties' control (force majeure) and other reasons

As for the employer's right to terminate the employment agreement, the employer may terminate employment only if certain conditions are met. An employment agreement may be terminated by the employer in the event of certain violations committed by the employee or a repeated failure by the employee to perform his job duties properly. The employer may also terminate an agreement in case of certain events such as the liquidation of a company, staff reduction, the unsuitability of the employee for the position held or work performed and others. In the latter case the unsuitability should be confirmed by the results of attestation, which is is also a statutory regulated procedure.

The Labor Code envisages the right of the employer to terminate an employment agreement with an employee during the probation period if the results of the probation are unsatisfactory. The employer must give at least three days' notice in case of early termination. It is also possible to give notice on the last day of the probation period.

Remuneration

Remuneration of employees depends on complexity of the work, the content and specificity of the work, the general conditions of the work and on the qualification of the employees.

Until recently, commercial companies and individual entrepreneurs were obliged to use the Unified Wage Tariff system to calculate remuneration. This restrained competition on the labor market.

Since 1 June 2011 commercial companies (both state and private) and individual entrepreneurs are no longer obliged to apply the Unified Wage Tariff system and may use it in their own discretion.

The Unified Wage Tariff system is a tool for setting tariff rates on the basis of a system of wage grades and corresponding tariff indexes. Based on the Unified Wage Tariff system, an employer must set a unified first rate tariff that will be multiplied by the tariff index for employee salary settings.

At present many employers have begun to establish salaries and wages without using the Unified Wage Tariff system (e.g., in the Belarusian ruble equivalent of conventional units or foreign currency). Salaries and wages must be paid in Belarusian rubles irrespective of the established procedure for determining them.

Work under a civil law agreement

Besides an employment agreement, an employee can also enter into a civil law agreement for performing work or providing services. The Labor Code does not apply to such agreements. The Civil Code and Presidential Decree No. 314 of 6 July 2005 regulate civil law agreements and the legal relations arising from them. Certain guarantees, including paid leave, which are provided under the Labor Code, do not apply to relations that arise from civil law agreements.

A civil law agreement must be in writing and provide for, inter alia, the following items:

- A procedure for settlements by the parties, including the amounts to be paid
- The obligation of the client (in other words, of the employer), to pay for individuals (in other words, for employees) the social security contributions
- Obligations of the parties to ensure safe working conditions and liability for failing to maintain them
- Grounds for the early termination of the civil law agreement
- Obligations on the part of the client to pay a penalty amounting to at least 0.15% of the unpaid amount for every day of delay if he failures to pay in time

Entering and staying in Belarus for foreign individuals

To enter Belarus a foreign citizen must obtain a visa (different types of visas are outlined below). Foreign citizens must register within five days, except for weekends and holidays. A foreigner must register either with the Ministry of Foreign Affairs, the department for internal affairs, the hotel or the health resort organization at the place of actual temporary stay. Russian and Kazakhstan nationals must register within 30 days.

Foreign citizens who have a valid permanent residency permit don't need to obtain any visa to enter and exit Belarus.

I. Entrance visas

The entrance visa gives a foreign national the right to enter, stay in and depart from Belarus. As a rule it is issued by Belarusian diplomatic missions and consulates in foreign states. If there is no Belarusian diplomatic representation (consular office) in the country of foreigner's citizenship, such foreigner can apply for a Belarusian visa in the airport upon arrival.

Entrance visas are classified into transit visas (issued for transit across Belarus), short-term visas (issued for up to 90 days) and long-term visas (issued for up to one year with the right to stay for 90 days). There are single-, double- and multiple-entrance visas.

Short-term entrance visas (category "C") are issued for the requested period, but for not more than 90 days, inter alia, for the following purposes:

- A business trip, on the basis of an invitation from a Belarusian legal entity
- Private matters, on the basis of, inter alia, an invitation from an individual
- Work (with the right to work by hire), on the basis of a special permission to work by hire or on the basis of the company's original invitation and endorsed copies of the founding documents or orders of appointment, as the founder or head of a commercial company with foreign investments

A long-term entrance visa (category "D") is issued for multiple entries into Belarus, inter alia, for the following purposes:

- Maintaining business contacts, on the basis of a request from a Belarus legal entity and other visa-support documents confirming the existence of business contacts with the host company
- Private matters, on the basis of, inter alia, an invitation from an individual

II. Temporary residency permit

A temporary residency permit is a document that allows a foreign national to reside in Belarus during its validity.

A foreign citizen may get a temporary residency permit, inter alia, if he/she comes to Belarus to work or carry out entrepreneurial activity. A temporary residence permit is given for the period of up to one year and allows foreign nationals to stay in Belarus without a visa. A temporary residence permit may also be issued to family members of a foreign national who has received a temporary residence permit, provided that there is a legal source of income that will allow him and his family members to maintain a minimum subsistence level as established in Belarus during his temporary residence.

III. Visa for exiting and entering Belarus

A foreigner who has a temporary residency permit can periodically leave Belarus and re-enter it if he/she has a valid visa.

If an entry visa has expired, a foreigner can receive an exit-entry visa. It is issued by the Citizenship and Migration Department of the Ministry of Internal Affairs at the place of the foreigner's temporary residence.

A multiple exit-entry visa is issued to foreign nationals who have received a temporary residence permit for one year, but for not longer than the validity period of the temporary residency permit.

Employment of foreign individuals

The employment of a foreign individual who has no a permanent residency permit and intends to come to Belarus for the purpose of employment must undergo a multi-stage procedure that both the employer and the foreign individual must complete.

Employment of foreign individuals includes the following steps:

1) The employer receives a permit to engage foreign manpower (see the section *"Permission to attract foreign human resources"* below)
2) The employer receives a special permit for each foreign employee to work in Belarus (see the section *"Special permission to work for hire in Belarus for a particular employee"* below)

3) The employer concludes an employment agreement with the employee and registers it (see the section *"Registration of labor agreements (contracts)"* below)

4) The employee receives a Belarusian entry visa (see the section *"Entrance visas"* above)

5) The employee is registered with the local bodies of internal affairs upon arrival in Belarus. Subsequently, the employee may receive a permanent residence permit (see the section *"Temporary residency permit"* above)

I. Permission to attract foreign human resources

To engage over 10 foreign citizens a Belarusian employer must obtain a permission to attract foreign human resources into Belarus.

To receive this permission the employer submits originals and notarized copies of all required documents to the Citizenship and Migration Department of the Ministry of Internal Affairs. The permission is valid for one year.

II. Special permission to work for hire in Belarus for a particular employee

After the above permission is obtained (if required) the Belarusian employer should obtain a special permission to work for hire in Belarus for every separate employee. If a foreign individual plans to work for several Belarusian employers, he/she must receive a special permit to work for each of them.

The Belarusian Ministry of Internal Affairs issues this permission for a year's term. Its validity may be extended by a year.

III. Registration of employment agreements

The employer must register the labor agreements (contracts) within one month of their signing. The term of validity of a labor agreement must not exceed the term of the validity of the special permission for employment.

Personal income tax

Taxpayers

Individuals pay the personal income tax (hereinafter, "PIT").

Taxation objects

The following are subject to PIT:

1) Income from sources inside and outside Belarus received by Belarusian tax residents

2) Income from sources in Belarus received by Belarusian tax nonresidents

Belarusian tax residents are individuals who have been on Belarusian territory for more than 183 days in a calendar year. Individuals who do not meet that requirement are tax nonresidents.

Income from sources in Belarus

Income from sources in Belarus includes:

- Salaries for fulfillment of work, provision of a service and the performance (non-performance) of an operation in Belarus
- Pension, benefits, stipends and other similar payments received in accordance with Belarusian legislation
- Dividends and interest received from a Belarusian company and/or interest received from a Belarusian individual entrepreneur and/or a foreign company in connection with its activity through a permanent establishment in Belarus
- Insurance compensation and/or support in the event of an insurance case received from a Belarus insurance company and/or a foreign company engaged in activity through a permanent establishment in Belarus
- Income from intellectual property use in Belarus
- Income from the lease or other use of Belarusian property
- Income from the sale of Belarusian immovable property
- Income from the sale on Belarusian territory of securities or shares (participatory interest in the charter capital of companies) and income from the sale of Belarusian shares (participatory interest in the charter capital of Belarusian companies), etc.

Tax rates

Standard tax rate	12%
Income received by employees (apart from employees engaged in the maintenance and security of buildings, premises and land) of HTP residents under employment contracts	9%
Income received by individual entrepreneurs who HTP residents	9%
Income received by individuals participating in the implementation of a qualifying business project in the field of new technologies and high tech from HTP nonresidents under employment contracts	9%
Income from entrepreneurial activity (including private notaries or advocates)	15%

Procedure for tax levying

In most cases, tax agents calculate, withhold and transfer PIT to the budget for their employees. Tax agents are Belarusian companies, Belarusian individual entrepreneurs, foreign companies engaged in activity in Belarus through a permanent establishment, permanent establishments of international organizations in Belarus and diplomatic missions and consulates of foreign states in Belarus from which the taxpayer has received income.

Tax agents transfer PIT to the budget not later than the day following the day on which the income was paid.

Individuals have to submit a tax return to the tax authorities and pay PIT themselves in the following cases:

- When income is received from individuals who are not tax agents
- When income is received by a Belarusian tax resident from a source outside Belarus
- When tax agents do not withhold income tax from an individual's income
- When income is received from entrepreneurial activity after an individual entrepreneur has lost his status

Individuals submit an annual tax return not later than 1 March of the year following the reporting calendar year and pay the tax not later than 15 May of the year following the reporting year.

Tax deductions

PIT payers may apply tax deductions as follows:

- In the amount paid for education in Belarusian educational institutions when receiving a first higher, a first secondary specialized or a first vocational technical education, and also in the amount used to repay loans received from Belarusian banks and/or from Belarusian companies and/or from Belarusian individual entrepreneurs (including interest in the majority of cases). The amounts paid by a taxpayer to train persons closely related to him are also deductable
- In the amount that does not exceed BYR2.55 million (approximately USD300) during a tax period, paid as insurance premiums under voluntary life insurance and additional pension agreements entered into for at least three years, and under agreements for voluntary insurance of medical expenses
- In the amount of the expenses actually borne by the taxpayer and his family members who are registered as persons in need of better living conditions on construction or acquisition of a house or an apartment in Belarus, and to repay loans to Belarusian banks and/or to Belarusian companies and/or to Belarusian individual entrepreneurs (including interest in the majority of cases)
- In the amount of the documented expenses actually incurred on the acquisition and/or payable alienation of property (except for the sale of securities and fixed-term financial instruments)

These tax deductions are granted by the tax agent (employer at the main place of work) or by the tax authorities when an individual submits a tax return.

A taxpayer may apply several standard tax deductions. For example, most taxpayers may apply a standard tax deduction of BYR440,000 (approximately USD52) per month if they receive income of not more than BYR2.68 million (approximately USD315) per month and of BYR123,000 (approximately USD15) per month for each child up to the age of 18 and/or each dependent.

Tax exempt income

The following income of Belarusian tax residents is exempted:

- Benefits for state social insurance and state social security, except for temporary disability benefits (e.g., there is no income tax on the maternity benefit and the childcare benefit until the child is three years old) and the unemployment benefit
- Pension received according to Belarusian legislation and/or the legislation of foreign states

- All types of compensation envisaged by legislative acts and resolutions of the Council of Ministers (except for compensation for unused work leave and compensation for the deterioration of transport vehicles, equipment, instruments and devices belonging to an employee)
- The amounts of material aid provided in accordance with legislation
- Income from individuals who are not individual entrepreneurs that is not over BYR26.5 million (roughly USD3,120), and in the amount received from all sources during the tax period as gifts or real estate under a rental agreement gratuitously
- Income from the payable alienation of one house, one apartment, one cottage and one land lot (or other similar real estate) within five calendar years
- Income from the payable alienation of one motor car within one calendar year
- Income from the sale of inherited property
- Income from the sale of other assets (subject to certain limitations)
- Alimony payments and other types of income

Payroll taxes

Examples of payroll tax calculation

The example is prepared on the assumption that a company employs a qualified welder at EUR24,000 gross per annum.

Expenses	EUR
I. Employer's expenses	
1. Social security contribution Rate – 34%, gross salary but not higher than EUR 1,513 per month (average salary in Belarus multiplied by four)*	6,173
2. Obligatory insurance contributions for cases of casualty at work or work-related diseases Rate – 0.6%, base – gross income	144
3. Obligatory contributions for professional pension insurance Rate – 4.8%, base – gross salary but not higher than EUR 1,135 per month (average salary in Belarus multiplied by three)*	654
4. Total annual expenses of the employer per each employee	30,971
II. Employee's expenses	
1. Social security contribution Rate – 1%, base – gross salary but not higher than EUR 1,513 per month (average salary in Belarus multiplied by four)*	182
2. Personal income tax withheld from employee (12% of gross income)	2,880
3. Net annual income per each employee	20,938

* – *for calculation, we used the average salary in Belarus for August 2012, which amounted to BYR 4,084,895 and the NBRB official exchange rate of BYR 10,800 for EUR 1.*

Contributions to the Fund for the Social Protection of People

Payers of social security contributions

Payers of social security contribution are:

- Legal entities, their representative offices, branches, individual entrepreneurs and private notaries, which give work to individuals under employment contracts and civil law contracts for the provision of services, performance of work and creation of intellectual property
- Individuals providing work to other individuals under employment contracts (not commented on in this booklet)
- Legal entities providing work on the basis of membership (participation) in other legal entities of any organizational and legal form
- Working individuals – Belarusian citizens, foreign citizens and stateless persons working under employment contracts and/or civil law contracts, and on the basis of membership (participation) in other legal entities of any organizational and legal form

- Individuals independently paying social security contributions (not commented on in this guide)

Objects of social security contributions

All payments in cash or in nonmonetary form are subject to social security contributions including payments upon civil law contracts. The tax base for social security contributions is limited by four average salaries in Belarus for the previous month.

The relevant legislative act stipulates types of payments which are exempt from social security contributions. Certain types of material aid, compensation and one-time payments are among these payments.

Foreign citizens may refuse to participate in the state social security program. In this case, a company does not pay social security contributions.

Social security contribution rates

Taxpayers pay the following social security contributions as a single payment:

- Social security contributions for retirement, disability and loss of the breadwinner (pension insurance) – 29%. These contributions include: 28% is paid by the employer and 1% by the employee; in this case, an employer directly withholds and transfers the tax.
- Social security contributions for temporary disability, maternity, etc. – 6%.

Other social security contribution rates for retirement, disability and loss of the breadwinner are set for certain categories of taxpayers (e.g., employers engaged in agricultural production, consumer cooperatives, social associations of disabled persons, etc.).

Payment of social security contributions and report submission

Taxpayers file a report on social security contributions quarterly not later than the twentieth of the month following the reporting quarter.

Taxpayers providing work under employment contracts pay contributions not later than the day set for paying salaries for the preceding month. Taxpayers providing work under civil law contracts pay contributions during days when remuneration is paid under the contracts, but not later than the day set for paying salaries for the preceding month.

Companies that have less than 100 employees during the calendar year pay contributions quarterly, but not later than the day set for paying salaries for the last month of the reporting quarter.

Professional pension insurance contributions

Professional pension insurance covers employees engaged for a full workday in underground work or in work in especially harmful and hard conditions, and employees of certain professions.

Contributions are paid for all types of payments made in cash or nonmonetary form. The base is limited by three average salaries of employees in Belarus for the month preceding the month for which these contributions are paid. Exemptions similar to exemptions established for the social security contribution apply to professional pension insurance contributions.

The professional pension insurance contribution rate varies from 1.5% to 4.8%.

The payment and reporting requirements are similar to those established for social security contributions.

Compulsory insurance contributions for cases of casualty at work or work-related diseases to the Belarusian republican unitary insurance enterprise Belgosstrakh

The tax base is all types of payments made to individuals subject to compulsory insurance against cases of casualty at work or work-related diseases. Contributions are not charged for payments that are exempt from social security contributions.

The tax base for compulsory insurance for cases of casualty at work or work-related diseases is the payroll; the tax rate is 0.6%. The Belarusian republican unitary insurance enterprise Belgosstrakh may increase or decrease the rate for each taxpayer depending on the type of professional risk.

Contributions are paid not later than the twenty-fifth of the month following the reporting quarter in which employees receive payment. Foreign citizens cannot refuse to participate in this compulsory insurance program.

Appendix



Appendix 1: Useful addresses and contacts

When making international phone calls,
the Belarus code, i.e., + 375, should be dialed.

Administration of the President

K. Marksa Str., 38
Minsk, 220016, Belarus
Tel.: +375 17 222 3751
Website: http://www.president.gov.by

Council of Ministers

Sovetskaya Str., 11
Minsk, 220010, Belarus
Tel.: +375 17 222 6046
Website: www.government.by

National Agency of Investment and Privatization

Bersona Str., 14
Minsk, 220050, Belarus
Tel.: +375 17 200 8175
Website: www.investinbelarus.by

Belarusian Chamber of Commerce and Industry

Kommunisticheskaya Str., 11
Minsk, 220029, Belarus
Tel.: +375 17 290 7249
Website: www.cci.by

National Bank of the Republic of Belarus

Nezavisimosti Ave, 20
Minsk, 220008, Belarus
Tel.: +375 17 328 5913
Website: www.nbrb.by

Ministry of Economy

Bersona Str., 14
Minsk, 220050, Belarus
Tel.: +375 17 222 6048
Website: www.economy.gov.by

Ministry of Finance

Sovetskaya Str., 7
Minsk, 220010, Belarus
Tel.: +375 17 222 6137
Website: www.minfin.gov.by

Ministry of Foreign Affairs

Lenina Str., 19
Minsk, 220030, Belarus
Tel.: +375 17 327 2922
Website: www.mfa.gov.by

Ministry of Internal Affairs

Gorodskoy Val Str., 2
Minsk, 220050, Belarus
Tel.: +375 17 218 7895
Website: www.mvd.gov.by

Ministry of Taxes and Duties

Sovetskaya Str., 9
Minsk, 220010, Belarus
Tel.: +375 17 229 7911
Website: www.nalog.gov.by

State Customs Committee

Mogilevsakaya Str., 45/1
Minsk, 220007, Belarus
Tel.: +375 17 218 9000
Website: www.gtk.gov.by

Ministry of Justice

Kollektornaya Str., 10
Minsk, 220004, Belarus
Tel.: +375 17 200 8687
Website: www.minjust.by

Ministry of Agriculture and Food

Kirova Str., 15
Minsk, 220030, Belarus
Tel.: +375 17 327 3751
Website: www.mshp.minsk.by

Ministry of Communications and Informatization

Nezavisimosti Ave, 10
Minsk, 220050, Belarus
Tel.: +375 17 387 8706
Website: www.mpt.gov.by

Ministry of Health

Myasnikova Str., 39
Minsk, 220048, Belarus
Tel.: +375 17 222 6033
Website: www.minzdrav.gov.by

Ministry of Education
Sovetskaya Str., 9
Minsk, 220010, Belarus
Tel.: +375 17 227 4736
Website: www.edu.gov.by

Ministry of Emergency Situations

Revolyutsionnaya Str., 5
Minsk, 220050, Belarus
Tel.: +375 17 203 6550
Website: www.rescue01.gov.by

National Statistical Committee
Partizansky Ave, 12
Minsk, 220070, Belarus
Tel.: +375 17 249 5200
Website: www.belstat.gov.by

State Security Committee

Nezavisimosti Ave, 17
Minsk, 220030, Belarus
Tel.: +375 17 219 9230
Website: www.kgb.by

State Control Committee
K. Marksa Str., 3
Minsk, 220030, Belarus
Tel.: +375 17 327 2015
Website: www.kgk.gov.by

Appendix 2: Currency exchange rates (as of period's end)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012 (as of end of September 2012)
USD/BYR	1,580	1,920	2,156	2,170	2,152	2,140	2,150	2,200	2,863	3,000	8,350	8,500
EUR/BYR	1,391	1,993	2,695	2,955	2,546	2,817	3,166	3,077	4,106	3,972	10,800	10,900
RUB/BYR	52.31	60.41	73.19	77.91	74.86	81.13	87.61	76.89	94.66	98.44	261	275

Source: National Bank of the Republic of Belarus (http://www.nbrb.by)

Appendix 3: Economic indicators

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Nominal GDP (USDbillion)	12.1	14.5	17.7	23.1	30.2	37.0	45.3	60.8	49.2	55.2	47.3
Real annual GDP growth (%)	4.7	5.0	7.0	11.4	9.4	10.0	8.6	10.2	0.2	7.7	5.3
Industrial output growth (%)	5.9	4.5	7.1	15.9	10.5	11.4	8.7	11.5	-2.0	12.0	9.1
Unemployment rate (%)	2.3	2.9	3.1	1.9	1.5	1.1	1.0	0.8	0.9	0.7	0.6

Sources: National Statistical Committee of the Republic of Belarus (www.belstat.gov.by)

Appendix 4: Withholding tax rates for companies that do not operate through a permanent establishment in Belarus, in accordance with double tax treaties

Belarus has double tax treaties with the following countries: Armenia, Austria, Azerbaijan, Bahrain, Belgium, Bulgaria, Germany, China, Croatia, Cyprus, the Czech Republic, Egypt, Estonia, Finland, Hungary, India, Iran, Ireland, Israel, Italy, Kazakhstan, North Korea, South Korea, Kyrgyzstan, Kuwait, Latvia, Lebanon, Lithuania, Macedonia, Moldova, Mongolia, the Netherlands, Oman, Pakistan, Poland, Qatar, Rumania, the Russian Federation, Saudi Arabia, the Slovak Republic, Slovenia, the Republic of South Africa, Sweden, Switzerland, Syria, Tajikistan, Thailand, Turkey, Turkmenistan, Ukraine, the United Arab Emirates, Uzbekistan, Venezuela, Vietnam and Yugoslavia (effective for Serbia).

Belarus also signed a double tax treaty with Libya, but it has not been ratified yet.

Belarus has double tax treaties as a legal successor to the USSR with the following countries: Denmark, France, Japan, Malaysia, Spain, Great Britain and the USA. According to the Ministry for Taxes and Levies, the treaties with Canada and Norway are no longer in force.

The following table gives the income tax rates for foreign companies in accordance with double tax treaties and effective Belarusian tax legislation.

	Dividends, %	Interest income, %	Royalty, %
Armenia	10/12 (a)	0/10 (v)	10/15 (tt)
Austria	5/12 (e)	0/5/10 (gg)	5/15 (uu)
Azerbaijan	12	0/10 (v)	10/15 (tt)
Bahrain	5	0/5 (vv)	5
Belgium	5/12 (e)	0/10 (z)	5
Bulgaria	10/12 (ww)	0/10 (v)	10/15 (tt)
China	10/12 (ww)	0/10 (ss)	10/15 (tt)
Croatia	5/12 (e)	10	10/15 (tt)
Cyprus	5/10/12 (d)	5/10 (xx)	5/15 (uu)
Czech Republic	5/10 (e)	0/5 (vv)	5
Denmark (q)	12	0	0
Korean People's Democratic Republic	10/12 (ww)	0/10 (s)(v)	10/15 (tt)
Egypt	12	10	15
Estonia	10/12 (ww)	0/10 (s) (ss)	10/15 (tt)

	Dividends, %	Interest income, %	Royalty, %
France (q)	12	0/10 (r)	0
Finland	5/12 (e)	0/5/10 (hh)	5/15 (uu)
Germany	5/12 (dd)	0/5/10 (ee)	3/5/15 (ff)
Hungary	5/12 (e)	5	5
India	10/12 (g)	0/10 (bb)(vv)	15
Iran	10/12 (g)	0/5/10 (v)(xx)	5/15 (uu)
Ireland	0/5/10 (oo)	5	5
Israel	10/12 (ww)	0/5/10 (t)	5/10/15 (cc)
Italy	5/12 (e)	0/8/10 (mm)	6/15 (zz)
Japan (q)	12	0/10 (ss)	0/10/15 (n)
Kazakhstan	12	0/10 (v)	15
South Korea	5/12 (e)	0/10 (p)	5
Kyrgyzstan	12	0/10 (v)	15

	Dividends, %	Interest income, %	Royalty, %
Kuwait	0/5 (x)	0/5 (vv)	10
Latvia	10/12 (ww)	0/10 (s)(ss)	10/15 (tt)
Lebanon	7,5	0/5 (v)	5
Lithuania	10/12 (ww)	0/10 (s)(ss)	10/15 (tt)
Macedonia	5/12 (e)	10	10
Malaysia (q)	0/112 (jj)	0/10 (s)(v)(bb)	10/15 (o)
Moldova	12	0/10 (bb)	15
Mongolia	10/12 (ww)	0/10 (nn)	10/15 (tt)
Netherlands	0/5/12 (e)(w)	0/5 (yy)	3/5/10 (ff)
Oman	0/5 (ii)	0/5 (ii)	10
Pakistan	10/12 (g)	0/10 (s)(u)	15
Poland	10/12 (a)	0/10 (bb)	0
Qatar	5	0/5 (v)	5
Rumania	10/12 (ww)	0/10 (v)	15
Russian Federation	12	0/10 (v)	10/15 (tt)

	Dividends, %	Interest income, %	Royalty, %
Saudi Arabia	5	5	10
Slovak Republic	10/12 (g)	0/10 (v)	5/10/15 (i)
Slovenia	5	0/5 (pp)	5
Republic of South Africa	5/12 (e)	0/5/10 (l)	5/10 (m)
Spain (q)	12	0	0/5 (y)
Sweden	5/10/12 (b)	0/5/10 (rr)	3/5/10/15 (c)
Switzerland	5/12 (e)	0/5/8/10 (aa)	3/5/10/15 (c)
Syria	12	10	15
Tajikistan	12	0/10 (bb)	15
Thailand	10	0/10 (qq)	15
Turkey	10/12 (g)	0/10 (v)	10
Turkmenistan	12	0/10 (v)	15
Ukraine	12	10	15
United Arab Emirates	5/10 (j)	0/5 (s)	5/10/15 (k)
Great Britain (q)	0	0	0
USA (q)	12	0	0
Uzbekistan	12	0/10 (u)	15
Yugoslavia (effective for Serbia)	5/12 (e)	8/10 (h)	10/15 (tt)
Venezuela	5/12 (e)	0/5 (kk)	5/10 (ll)
Vietnam	12	0/10 (v)	15
Countries with which the Republic of Belarus has no double tax avoidance treaties	12	10	15

(a) A 10% rate is applied when the recipient is the actual owner of dividends and owns at least 30°% of the capital of the company that pays an income. Otherwise, a 12% rate is applied.

(b) A 5% rate is applied when the recipient is the actual owner of dividends and owns at least 30% of the capital of the company that pays an income. A 10% rate is applied in other cases when the recipient is the actual owner of dividends. Otherwise, a 12% rate is applied.

(c) A 3% rate is applied when the recipient is the actual owner of royalty concerning the amounts paid for the use or grant of the right of use of patents, secret formulas or processes, or for information on industrial, business or scientific experience. A 5% rate is applied when the recipient is the actual owner of royalty concerning the amounts paid for the use or grant of the right of use of industrial, business or scientific equipment. In all other cases, a 10% rate is applied when the recipient is the actual owner of royalty. Otherwise, a 15% rate is applied.

(d) A 5% rate is applied when the recipient is the actual owner of income and has invested.

(e) At least 200,000 ECU in the equity of the company that pays the income. A 10% rate is applied when the recipient is the actual owner of income and owns at least 25% of the capital of the company that pays the income. Otherwise, a 12% rate is applied. A 5% rate is applied when the recipient of income is the owner of at least 25% of the capital of the company that pays the income. Otherwise, a higher rate is applied. (In the event of the Netherlands, Yugoslavia (effective for Serbia), Switzerland, Austria and Italy, the recipient must be the actual owner of income if the 5% rate is to be applied.)

(f) A 3% rate is applied to the amounts paid for the use or grant of the right of use of patents, trademarks, design, models, plans, secret formulas or processes, or for information on industrial, business or scientific experience. A 5% rate is applied to the amounts paid for the use or grant of the right of use of industrial, business or scientific equipment (including road transport vehicles). A 10% rate is applied to the amounts paid for the use or grant of the right of use of copyright for works of literature, art or science, including cinema films as well as films or recordings used in TV or radio programs. Otherwise, a 15% is applied.

(g) A 10% rate is applied when the recipient is the actual owner of income and owns at least 25% of the capital of the company that pays the income. Otherwise, a 12% rate is applied. (In the event of Pakistan and Turkey, there is no requirement for the recipient of income to be the actual owner of income in order to apply the 10% rate.)

(h) An 8% rate is applied when the recipient is the actual owner of interest. Otherwise, a 10% rate is applied.

(i) A 5% rate is applied to the amounts paid for using the copyright for works of literature, art or science, including cinema films as well as films or recordings and other means for transmitting images or sound. A 10% rate is applied to the amounts paid for patents, trademarks, design, charts, models, plans, secret formulas or processes, for information on industrial, business or scientific experience, for the use or cession of the right of use of industrial, business or scientific equipment, or for transport vehicles. Otherwise, a 15% rate is applied.

(j) A 5% rate is applied when the actual owner of dividends is a company owning USD100,000 or more in a company that pays dividends. Otherwise, a 10% rate is applied.

(k) A 5% rate is applied to the amounts paid for the use or grant of the right of use of copyright for scientific works, patents, trademarks, design, models, plans, secret formulas or processes, for the right of use of information on industrial, business or scientific equipment or transport vehicles, or for information on

industrial, business or scientific experience. A 10% rate is applied to the amounts paid for the use or grant of the right of use of copyright for works of literature or art, including cinema films as well as films or recordings used in TV or radio programs. Otherwise, a 15% rate is applied.

(l) A 0% rate is applied when the recipient of the interest income is the government, a government body or an company that is fully owned by the state. A 5% rate is applied when the interest income recipient is a bank or other financial institution. Otherwise, a 10% rate is applied.

(m) A 5% rate is applied to the amounts paid for industrial, business or scientific equipment or transport vehicles. Otherwise, a 10% rate is applied.

(n) A 0% rate is applied to the amounts paid for the use or grant of the right of use of copyright for works of literature, art or science, including cinema films as well as films or recordings used in TV or radio programs. A 10% rate is applied to the amounts paid for the use or grant of the right of use of patents, trademarks, design, charts, models, plans, secret formulas or processes, for information on industrial, business or scientific experience, and for the use or grant of the right of use of industrial, business or scientific equipment. Otherwise, a 15% rate is applied.

(o) A 10% rate is applied when the recipient is the actual owner of royalty concerning the amounts paid for the use or grant of the right of use of patents, trademarks, design, models, plans, secret formulas, processes, or copyright for scientific works, for the use or grant of the right of use of industrial, business or scientific equipment, and for the use or grant of the right of use of information on industrial, business or scientific experience. Otherwise, a 15% rate is applied.

(p) A 0% rate is applied to interest income from the sale on credit terms of industrial, medical or scientific equipment or when the interest income recipient is the government, the central bank, local government bodies, and financial institutions performing state functions, or when interest is paid on loans that are guaranteed or indirectly financed by those bodies or institution.

(q) Belarus abides by the double tax avoidance treaty between the former USSR and that state. The table shows the tax rates in compliance with the treaty.

(r) A 0% rate is applied to interest on bank and commercial loans. Otherwise, a 10% is applied.

(s) A 0% rate is applied to interest on government-guaranteed loans.

(t) A 0% rate is applied when the interest income recipient is a government or local government body or the central bank. A 5% rate is applied when the recipient and the actual owner of interest income is a bank or other financial institution or when interest is paid as any industrial, business or scientific equipment is sold on credit terms. Otherwise, a 10% rate is applied

(u) A 0% rate is applied to government-approved loans or when the interest income recipient is the government or the central bank. Otherwise, higher rates are applied.

(v) A 0% rate is applied when the interest income recipient is the government or the central bank. (In the event of Turkey, a 0% rate is also applied when interest accrues in Belarus and is paid by Eximbank of Turkey on loans for the purchase of industrial, business, commercial, medical or scientific equipment.) Otherwise, higher rates are applied.

(w) A 0% rate is applied when one of the following requirements is met:

- The dividend recipient owns more than 50% of the dividend-paying company's capital, provided that the dividend recipient's contribution to the company's capital is at least 250,000 ECU
- The dividend recipient owns over 25°% of the dividend-paying company's capital, and its contribution to the company's capital is guaranteed or insured by the government

(x) A 0% rate is applied when the dividend recipient is the government, the central bank or other government agencies or financial institutions. Otherwise, a 5% rate is applied.

(y) A 0% rate is applied to the amounts paid for the use or cession of the right of use of copyright for works of literature, music, art or science, except for cinema films as well as films or recordings used in TV or radio programs. Otherwise, higher rates are applied.

(z) A 0% rate is applied when one of the following requirements is met:

- A loan was approved by the government
- Interest is charged on the sale on credit terms of industrial, medical or scientific equipment and related services
- A loan intended to promote export and involves the delivery of industrial, medical or scientific equipment and related services has been granted, insured or guaranteed by the state

Otherwise, a 10% rate is applied.

(aa) A 0% rate is applied when one of the following requirements is met:

- A loan was approved by the government
- Interest was received due to the sale on credit terms of industrial, commercial, medical or scientific equipment
- Interest income is interest on state securities

A 5% rate is applied to interest income relating to bank loans. An 8% interest rate is applied when the recipient is the actual owner of interest income. Otherwise, a 10% rate is applied.

(bb) A 0% rate is applied when a loan was approved by the government. (In the event of Malaysia, a 0% rate is applied only to interest income whose recipient is a resident of the Republic of Belarus.)

(cc) A 5% rate is applied only to the amounts paid for using copyright for works of literature, art or science (except for cinema films) or the right to use industrial, commercial or scientific equipment or transport vehicles. A 10% rate is applied when the recipient is the actual owner of realty. Otherwise, a 15% rate is applied.

(dd) A 5% rate is applied when the recipient is the actual owner of income and owns over 20% of the income-paying company's capital, and has made a contribution of at least EUR81,806.70. Otherwise, 12% is applied.,

(ee) A 0% rate is applied when interest originates in Belarus and is paid to the government of the Federal Republic of Germany, to the bank Deutsche Bundesbank, the bank Kreditanstalt für Wiederaufbau or Deutsche Finanzierungsgesellschaft für Beteiligungen in Entwicklungsländern, when the interest income originates due to the loans secured by export loan guarantees (Hermes-Deckung) provided by the German government, when the interest income recipient is the government or the central bank of the Republic of Belarus, or when the recipient is the actual owner of income and the interest income is paid due to the sale on credit terms of any industrial, business or scientific equipment. A 5% rate is applied when the recipient is the actual owner of the interest income. Otherwise, a 10% rate is applied.

(ff) A 3% rate is applied when the recipient is the actual owner of royalty in relation to the amounts paid for the use or cession of the right of use of copyright for scientific works, patents, trademarks, design, models, plans, secret formulas or processes, or the right of use of information on industrial, commercial or research experience. A 5% rate is applied when the recipient is the actual owner of royalty in relation to the amounts paid for the use or cession of the right of use of copyright for the works of literature and art, including cinema films as well as films or recordings used in TV or radio programs, or for the use or cession of the right of use of all types of equipment and transport vehicles. Otherwise, a 15% rate is applied.

(gg) A 0% rate is applied when the loan was approved by the government, when the interest income recipient is the government or the central bank, or when the interest income paid had originated due to a lending or a loan guaranteed or insured by state companies with a view to promoting export and is associated with the delivery of industrial, commercial, medical or scientific equipment (including Österreichische Kontrollbank Aktiengesellschaft). A 5% rate is applied when the recipient is the actual owner of the interest income. Otherwise, a 10% rate is applied.

(hh) A 0% rate is applied when the interest income recipient is the government, the central bank, the Finnish Fund for Industrial Cooperation (FINNFUND) or the Finnish export credit agency FINNVERA. A 5% rate is applied when the recipient is the actual owner of the interest income. Otherwise, a 10% rate is applied.

(ii) A 0% rate is applied when the income recipient is the government, the central bank or the State General Reserve Fund of the Sultanate of Oman and, in the event of interest income, any company that fully or largely belongs to the state. Otherwise, a 5% rate is applied

(jj) A 0% rate is applied when the recipient is a resident of the Republic of Belarus and actually has the right to it. Otherwise, a 12% rate is applied.

(kk) A 0% rate is applied when the recipient is the actual owner of the interest income and when one of the following requirements is met:

- The interest income recipient is the government or a state body, the central bank, or a company that fully or largely belongs to the state
- Interest is paid on a government-guaranteed loan
- Interest is paid on a loan that is intended to promote export and that is connected with the delivery of all types of equipment and transport vehicles by an enterprise of another treaty state
- Interest is paid due to the sale on credit terms of all types of equipment and transport vehicles

Otherwise, a 5% rate is applied.

(ll) A 5% rate is applied to the amounts of royalty if royalty was received as remuneration for the use or cession of the right of use of any copyright for works of science or a computer application, or for the use or cession of the right of use of all types of equipment and transport vehicles.

Otherwise, a 10% rate is applied

(mm) A 0% rate is applied when one of the following requirements is met:

- Interest is paid by the government or a state body
- Interest is paid to the government, a government body, a local agency or a body (including financial institutions) that fully belongs to the state or a government body
- Interest is paid to any other agency or body (including financial institutions) on loans granted due to the application of the interstate treaty

An 8% rate is applied when the recipient is the actual owner of the interest income. Otherwise, a 10% rate is applied.

(nn) A 0% rate is applied to loans granted to the government or the central bank. Otherwise, a 10% rate is applied.

(oo) A 0% rate is applied to dividends whose recipients are:

- The National Treasury Management Agency of Ireland
- The National Reserve Pension Fund of Ireland
- Any company, including an agency or an institution, that fully or partially belongs to the state

A 5% rate is applied to dividends whose recipient owns at least 25% of the income-paying company's capital.

(pp) A 0% rate is applied when the payer or the payee of the interest income is the government, a political and administrative division, a local government body, or the central bank. Otherwise, a higher rate is applied.

(qq) A 0% rate is applied when interest is paid to the government, the central bank, and institutions whose capital belongs fully to the state or local government bodies. Otherwise, a 10% rate is applied.

(rr) A 0% rate is applied in the following cases:

- The payer or the payee of the interest income is the government, a political and administrative division, a local government body, or the central bank
- A loan is approved by the government
- A loan is granted and guaranteed by the state financial body to promote export, if a lending is provided or guaranteed on preferential terms
- A loan is granted by a bank to promote export
- Interest is paid on the debt that arises in the event of sale on credit terms of any items or industrial, business or scientific equipment

A 5% rate is applied when the recipient is the actual owner of the interest income. Otherwise, a 10% rate is applied.

(ss) A 0% rate is applied when one of the following requirements is met:

- Interest is paid to the state, a local government body, the central bank, or a financial institution that fully belongs to the state
- Interest is paid on a loan that is guaranteed, insured or indirectly financed by the government, the local government body, the central bank, or a financial institution that fully belongs to the state (this clause is not applied to China, Estonia, Lithuania or Latvia)

Otherwise, a 10% rate is applied.

(tt) A 10% rate is applied when the recipient is the actual owner of royalty. Otherwise, a 15% rate is applied.

(uu) A 5% rate is applied when the recipient is the actual owner of royalty. Otherwise, a 15% rate is applied.

(vv) A 0% rate is applied when the recipient of the interest income is the government or local government body, the central bank or other government company or financial institution. Otherwise, a higher rate is applied.

(ww) A 10% rate is applied when the recipient is the actual owner of dividends. Otherwise, a 12% rate is applied. .

(xx) A 5% rate is applied when the recipient is the actual owner of the interest income. Otherwise, a 10% rate is applied.

(yy) A 0% is applied in the following cases:

- The payer or the payee of the interest income is the government, a political and administrative division, a local government body, or the central bank
- Loan was approved by the government
- Loan was provided, guaranteed or insured by the government, the central bank or other body under state control
- Loan was provided or guaranteed by a financial institution to promote development, or interest is paid on a loan or lending designed to acquire industrial, business, commercial, medical or scientific equipment

(zz) A 6% rate is applied when the recipient is the actual owner of royalty. Otherwise, a 15% rate is applied.

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